

UBS Investment Research

Inspection & Testing

These might be testing times

24 April 2008

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■ **Long-term growth/margin history suggests some cyclicality**

Despite the structural drivers and relative defensiveness of the Inspection & Testing space, the business model is not completely immune to the macro environment. Investors should consider that over the past 25 years the Inspection & Testing industry has been affected by every major economic event: commodity downturns (early 1990s, 1997/98, 2001/02), emerging market downturns (1997/98) and global economic recessions (early 1990s, 2001/02).

■ **Every inspection and testing division is vulnerable to some extent**

Commodity testing would suffer if market conditions deteriorated but this looks unlikely given the strength of Oil/minerals. We have concerns about Consumer testing because evidence suggests moderately weaker trading can be expected, as in the 1990/91 recession. Perhaps more worrying are the implications for Marine as new-build shipping slows.

■ **Inspection & Testing earnings estimates cut by 5% for 2009**

We would prefer Commodities exposure (SGS and Intertek) but are cautious on Industrial exposure (BV and SGS) in 2009, while we see possible margin risk for Consumer testing (Intertek). Furthermore, Marine certification (BV) looks particularly susceptible to significant consensus downgrades in 2010.

■ **Stocks are highly rated and will face tougher headwinds**

The sector trades at a substantial premium to the market and is near fair value. Over the past six months Inspection & Testing has outperformed the market by over 30%. We expect industry growth to slow and margins to weaken more than consensus expects. As such, we downgrade Bureau Veritas to Sell from Neutral, downgrade Intertek to Sell from Neutral, and SGS to Neutral from Buy.

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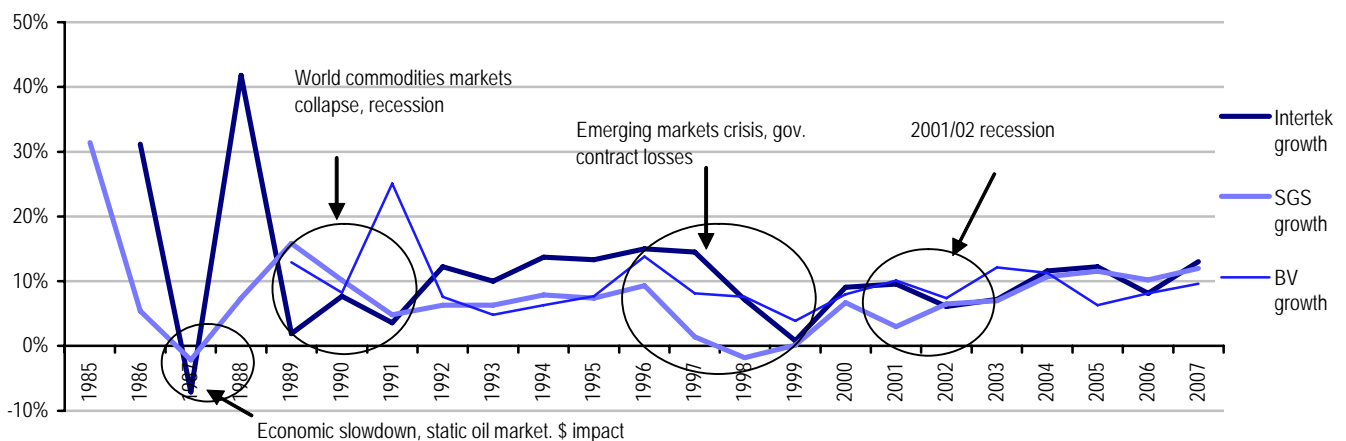
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Chart 1: Bureau Veritas, Intertek and SGS – historical growth rates (organic where possible*)



Source: Bureau Veritas, Inchcape, Intertek, New York Times, RNS, SGS, Textline, UBS estimates

Note: * Organic growth rates except: SGS 1985-1989 and BV 1989-1993 & 1998-1999. We estimate Intertek's organic growth during 1986-1994.

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Summary

Current momentum is undoubtedly strong in the Inspection & Testing sector – Intertek recorded its highest annual organic growth in 10 years in 2007, and SGS posted its highest growth in over 15 years. Bureau Veritas remains focused on acquisitions but turned in organic growth just short of double digits – a respectable performance.

We believe 2008 will be another buoyant year for Inspection & Testing (particularly H1 08) but we expect 2009 to be below trend. 2009 consensus growth (c9% y/y organic) and margin assumptions (up 30bp y/y) remain optimistic. As such, there is room for some disappointment. Management targets will also become tougher to achieve during a period of weak economic growth (eg, BV’s 2011 revenue and margin targets, and SGS’ 2011 management EPS target).

Current momentum is undoubtedly strong in Inspection & Testing

We believe 2008 will be another buoyant year but we expect 2009 to be below trend

Table 1: Summary of changes to ratings, price targets and earnings

	New Rating	Old Rating	New Price Target	Old Price Target	Share Price	EV/EBIT 2008	EV/EBIT 2009	P/E 2008	P/E 2009	EPS Changes 2008	EPS Changes 2009	Diff vs Cons 2008	Diff vs Cons 2009
Bureau Veritas	Sell	Neutral	€ 33.0	€ 40.0	€ 37.5	13.2	12.5	16.7	15.7	0.0%	-7.7%	3.8%	-3.9%
Intertek	Sell	Neutral	950p	1025p	1019p	13.0	12.4	17.5	16.6	1.0%	-5.9%	1.0%	-4.4%
SGS	Neutral	Buy	CHF 1,520	CHF 1,600	CHF 1,452	13.1	11.9	18.7	17.6	0.0%	-1.7%	2.1%	-2.1%
Average						13.1	12.2	17.6	16.6	0.3%	-5.1%	2.3%	-3.5%

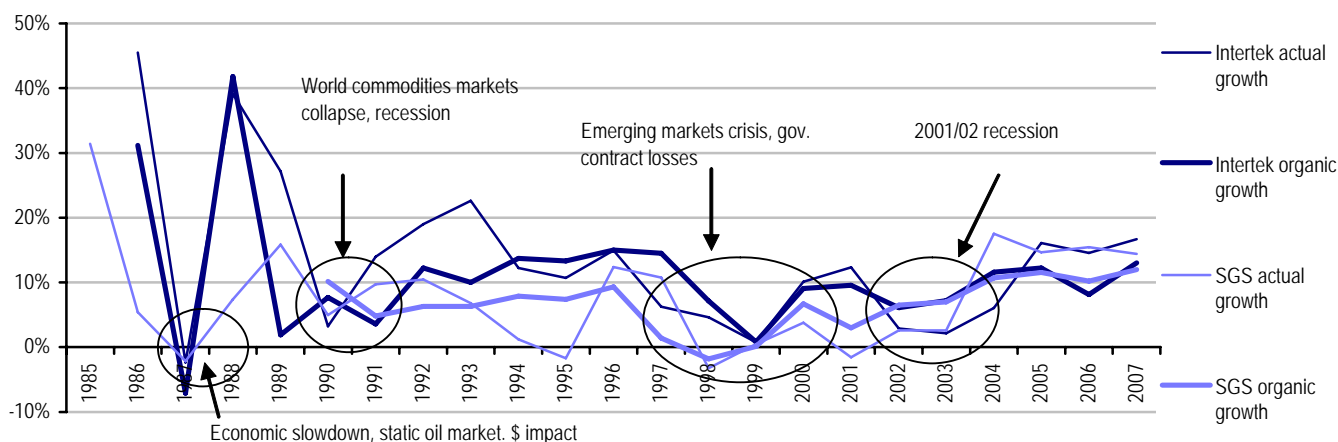
Source: UBS estimates

History points to some cyclicalty

If there is a global recession, the growth rates of the Inspection & Testing companies will slow and margins weaken. Over the past 25 years, the Inspection & Testing industry has been affected by every economic event going – commodities downturns (early 1990s, 1997/98, 2001/02), emerging market downturns (1997/98), economic recessions (early 1990s, 2001/02), economic slowdowns and financial market collapses (1987).

If there is a global recession, growth rates will slow and margins will weaken

Chart 2: Intertek & SGS – actual and organic growth rates



Source: Inchcape, Intertek, SGS, UBS estimates

The good news: It will not be as bad as before

If there is a global recession and weaker commodities markets, the impact on Inspection & Testing is unlikely to be as vicious as in previous cycles.

The impact on Inspection & Testing companies is unlikely to be as serious as in previous cycles

- (1) The commodities inspection/testing business has moved into outsourced and analytical work – which has greater visibility.
- (2) Consumer testing will continue to be buoyed by the ‘toys testing’ phenomenon, and the potential for new US legislation.
- (3) Government Services PSI has been reduced in size (historically the most material driver of growth/margin volatility).
- (4) Non-core/underperforming businesses have been disposed of. Examples include loss-adjustment and healthcare by SGS, and environmental/mining by Intertek.

Table 2: Summary of growth

Performance under previous downturns							
		% of 2007 earnings	1987 slowdown	1990/91 recession	1997/98 Asia Pacific crisis	2001/02 recession	2007 growth
Commodities							
BV	GSIT*	1%		n/a	n/a	n/a	'Strong'
Intertek	Oil, Gas & Agri	34%	'Static market'	'Stable'	+5%	+3%	+16%
	Minerals (Bondar Clegg)	n/a		<0%	-30%	'Disposed'	
SGS	Agriculture	7%		<0%		-3%	+4%
	Minerals	14%	'Satisfactory'	-5%	-5%	<-5%	+17%
	Oil	19%	'Stable'	<0%	-5%	0%	+12%
Industrial Services							
BV	Certification	15%			+30%	>10%	+7%
	Construction	15%			-5%		+3%
	HSE	4%					+0%
	Industry	11%				>10%	+18%
	Inspection	8%					+5%
Intertek	Comm & Elec*	8%			+6%	+2%	+9%
	Autos	5%				>10%	+10%
SGS	Environmental	4%	'Satisfactory'			n/a	+14%
	Industrial	14%	'Weak'	'Satisfactory'		+10%	+16%
	Life	3%				<-5%	+4%
	Systems	9%			>20%	+10%	+9%
Consumer Goods							
BV	Consumer	18%		n/a			+13%
Intertek	Consumer	40%	'Strong'	'Good'		20%	>15%
	Comm & Elec*	12%	'Strong'				+9%
SGS	Consumer	21%	'Strong'	'Stagnant'	>-5%	>10%	+10%
Government Services							
BV	Government Services*	6%					+19%
Intertek	Government Services	5%	New contracts		-29%	>0%	0%
	Trade Assurance	4%	'Mixed'		-20%	-20%	+20%
Marine							
BV	Marine	23%	<0%	0%	>10%	+3%	+21%
Intertek		0%	n/a	n/a	n/a	n/a	n/a
SGS		0%	n/a	n/a	n/a	n/a	n/a

Source: Company data, UBS

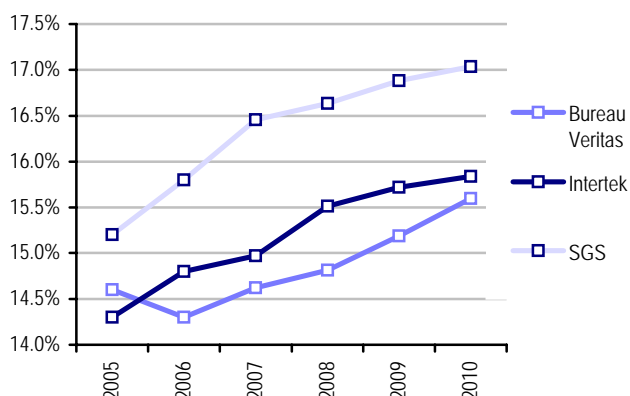
Consensus forecasts

We believe that consensus is forecasting **organic growth of c9% y/y** for the Inspection & Testing companies in 2009, which implies no significant deviation from recent five-year trends.

As shown in Chart 3, consensus is also reasonably optimistic on margin expansion between 2008 and 2010. *However, we think margin enhancement and growth will be vulnerable under weaker economic conditions.*

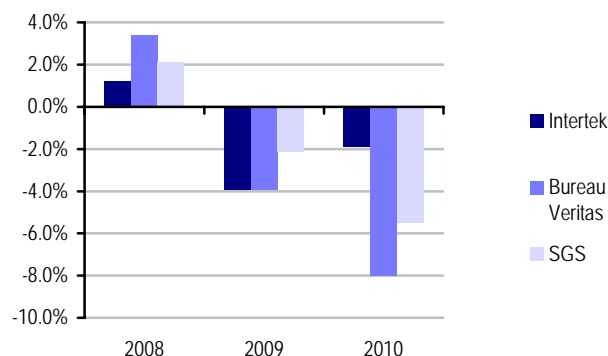
Consensus is optimistic on organic growth and margins in 2009

Chart 3: Consensus EBIT margin forecasts



Source: Reuters, UBS estimates

Chart 4: UBS EPS estimates vs consensus EPS estimates



Source: Reuters, UBS estimates

Structural growth drivers remain intact

Given the ratings of these stocks, optimistic consensus forecasts, and headwinds from a tough macroeconomic environment, we believe it is right to adopt a more conservative view in the medium term. However, we believe it is worth highlighting the longer-term structural drivers of these companies.

We believe the longer-term structural drivers remain compelling

Table 3: Our view of the testing and inspection industry for 2008 and beyond

Driver	Our view	Summary	Most affected	Rationale
1 Regulation	Very positive	New regulations come on-stream (REACH, environmental regulations, ship recycling).	Industry	Regulations creating new market opportunities for testing houses.
	Very positive	US Toy legislation	Consumer	Already had a significant benefit on Intertek's H2 growth rates. Further upside possible.
2 M&A activity	Very positive	Main testing companies have indicated that they will be making further purchases in 2008.	Industry	Creates added value for acquirers – usually in purchases made in niche product markets
3 Trade flows	Positive	Increased penetration of Chinese goods to Europe	Industry	US hitting ceiling (c70% Chinese goods), Europe still has further to go (<50% Chinese)
4 Product diversity	Positive	Long-term structural story - on a rising trend	Consumer	Further increases in products to be tested
	Very positive	Secular outsourcing trend	Industry	Benefits organic growth and margins
5 Outsourcing	Positive	Rising commodity prices	Industry	Increases buoyancy and health of industry
	Positive	Companies are requiring quicker turnaround time on testing	Industry	Could offer some upside to pricing
7 Climate change	Positive	Upside for energy efficiency and biofuel testing	Industry	Already noted by Intertek as a positive driver
8 Emerging markets	Positive	Emerging mkts generate a lot of earnings but from trade & not yet emerging mkt demand	Industry	Significant upside available longer term

Source: UBS estimates

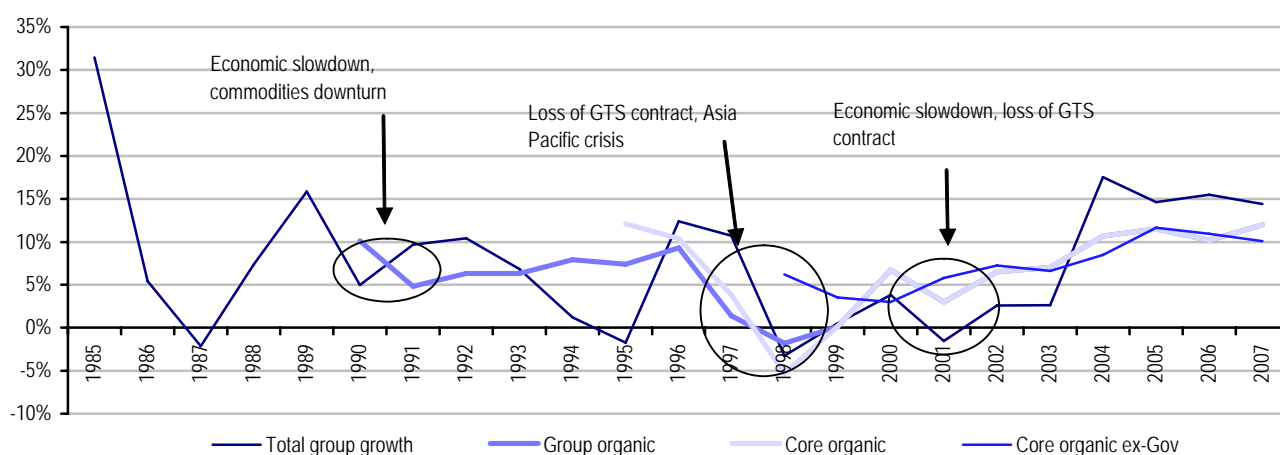
On the following pages we briefly look at the historical track record of each of the Inspection & Testing companies.

SGS

We summarise four ‘slowdown’ periods during which SGS was affected:

- **1987 slowdown** – SGS blamed ‘low raw material prices, the erosion of the US dollar, and the low level of growth [of] international trade’ for negatively influencing the company.
- **1990/91 collapse in world commodities markets/global recession** – SGS’ revenue growth did slow in the early 1990s; it halved to 5% in 1991 from about 10% in 1990. SGS blamed lower growth and lower profitability on the ‘serious economic slow-down in a number of countries where SGS operates’. SGS experienced poorer trading in its agricultural, minerals and industrials divisions. Consumer goods testing was affected by a stagnant toy market.
- **1997/98 Asia Pacific crisis** – this had a significant impact on SGS’ business, although the timing of government contract losses had a large role to play. SGS was initially affected by the loss of Indonesian and Pakistan government services contracts, but Asia Pacific and the downturn in oil and minerals also weighed on results. In 1998, government contract losses probably trimmed about 10 percentage points off core group growth.
- **2001/02 recession** – SGS’ organic growth slowed to 3% y/y in 2001 from 7% in 2000. This was due to the Trade Assurance division, which saw additional contract losses. Ex-government, growth actually accelerated in 2001 and was flat thereafter. Commodities businesses slowed after 2000, although other divisions held up well (Consumer, Systems, Industrial).

Chart 5: SGS – group growth since 1985



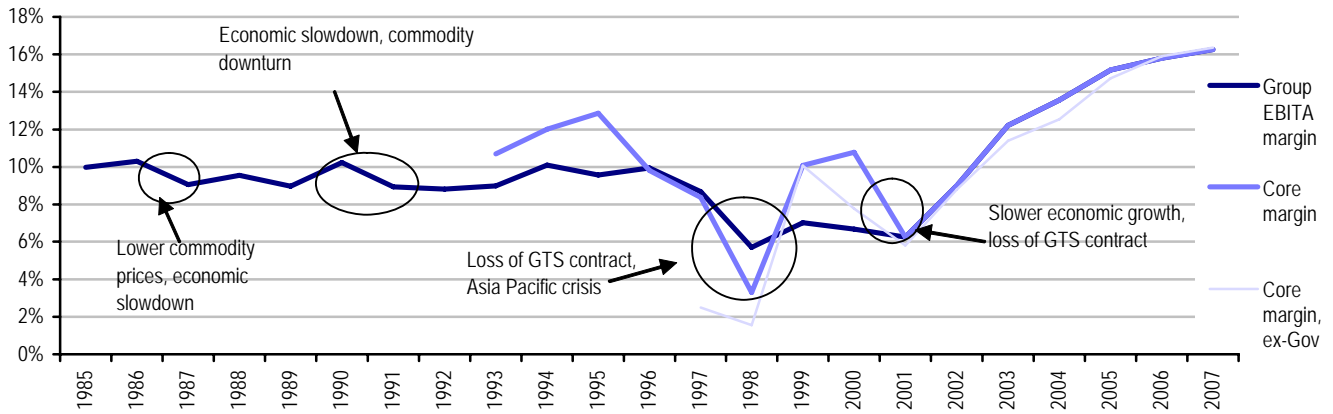
Source: SGS, UBS estimates

Note: Restated in 1998 & 1999 to show continuing operations. SGS had several non-core businesses which it fully divested in 1999 (loss-adjustment, healthcare and biosciences). The core business represents Testing & Inspection activities only (disclosed between 1995 and 1999 only)

Periods of slower growth have often been marked by y/y margin declines, as shown in Chart 6. Government contract losses have tended to have the most significant effect on group margins historically, as witnessed in 1997/98 and in

2001. The commodities businesses have also recorded deteriorating margins when revenue growth slows (eg, Agri dropping to 5% in 2001 from 13% margins in 1999, Minerals to 4% in 1998 from 11% in 1997, then to 7% in 2001 from 11% in 2000, and Oil to 7% in 2001 from 10% margins in 2000).

Chart 6: SGS EBITA margins (pre-exceptionals)



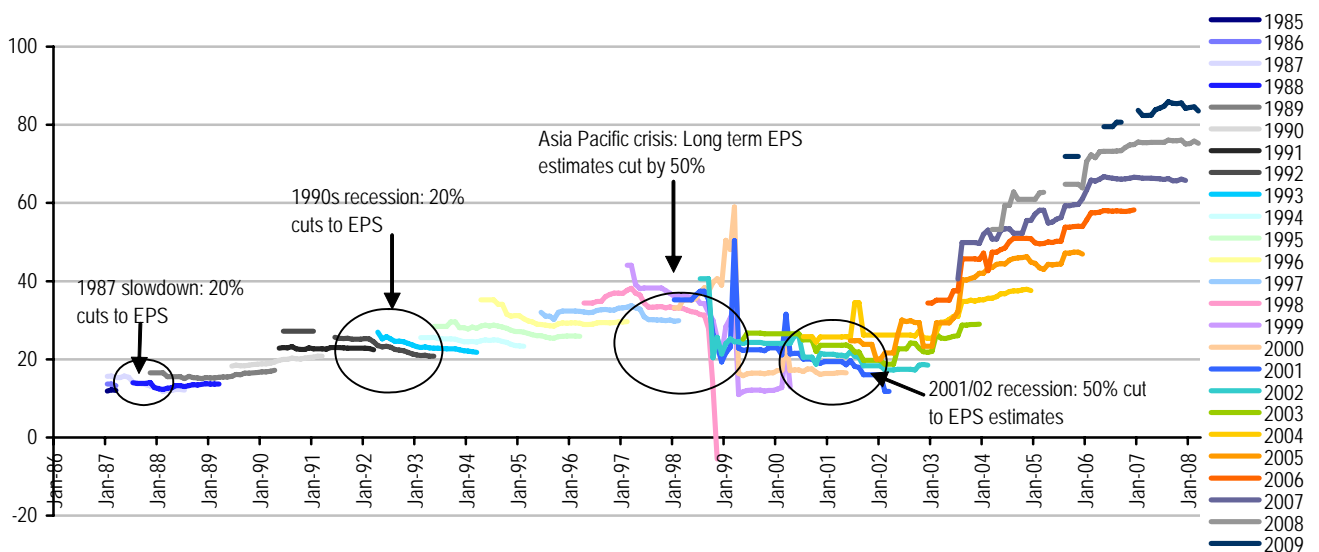
Source: SGS, UBS estimates

Note: Core Testing & Inspection margin reported post-central costs between 1993-1996 and 2000-2007, but pre-central costs between 1996 and 2000. We have allocated the entire central cost line to the core business between 1997 and 2000.

When we look at consensus earnings forecasts for SGS historically (admittedly this is subject to accounting changes/exceptionals etc.) we notice that consensus estimates are downgraded during economic slowdowns. Cuts of at least 20% are seen to consensus during the 1987, early 1990s, 1997/98 and 2001/02 slowdowns. Certainly the scale of government contract losses contributed significantly to the EPS downgrades in 1997/98 and 2001/02 but underlying numbers were probably trimmed for other businesses too.

Consensus estimates have been downgraded historically

Chart 7: Long term I/B/E/S EPS forecasts

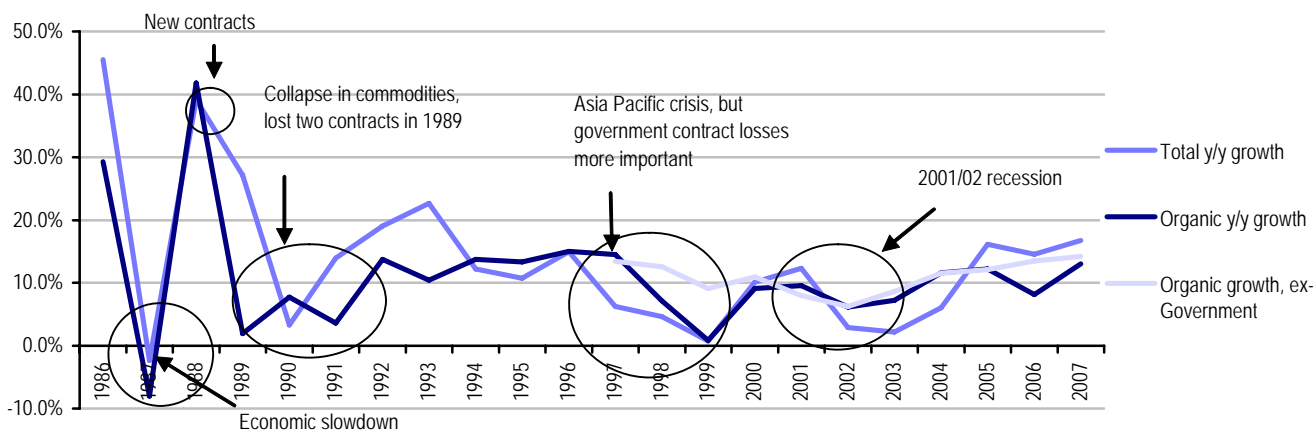


Source: I/B/E/S

Intertek

We show the long-term growth record for Intertek in Chart 8. We estimated the organic growth rates between 1986-1995 using available acquisition and currency data. However, as shown in the chart below, actual growth rates have also been a reasonable proxy for organic growth rates over the past 20 years.

Chart 8: Intertek long-term revenue growth



Source: Intertek, Inchcape, UBS estimates

Historical data shows that Intertek has seen some cyclical influences – with growth rates tailing off in the early 1990s, 1998 and 2002. The biggest risk to growth comes from the commodities markets – an area that should remain reasonably buoyant in 2008. The government business, usually a big driver of growth (or lack thereof), has been de-risked to some extent, because of the contract losses over the past few years. We summarise four distinct cycles for Intertek:

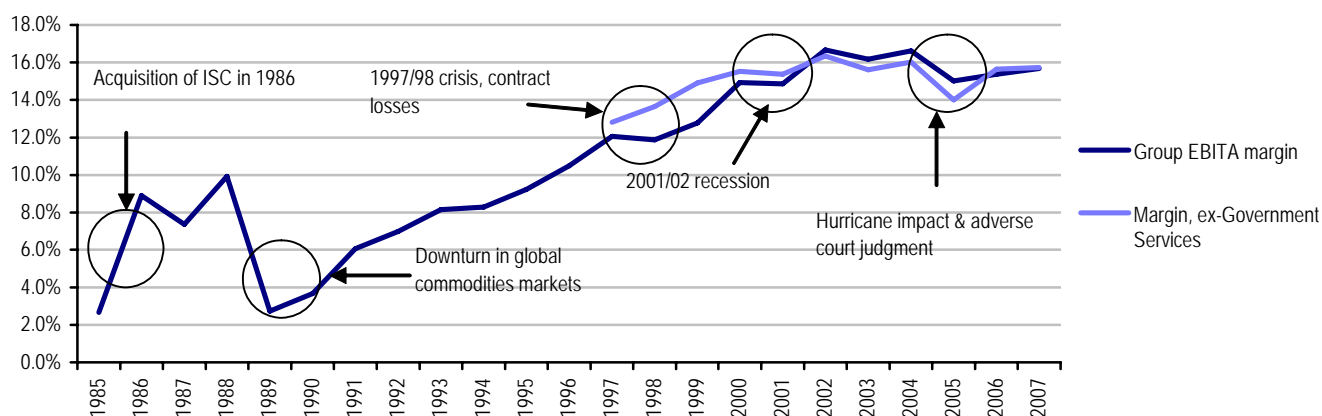
Historical data shows that Intertek has seen some cyclical influences

- **1987 slowdown** – the oil market was static but Intertek held up well in consumer and commodities inspection/testing, although revenues and margins showed y/y weakness.
- **1990/91 collapse in world commodities markets/global recession** – Intertek’s revenue growth tailed off sharply in 1989 as commodity markets collapsed and remained relatively weak in the 1990-91 recession. The decline in global minerals activities affected the underlying mining business in 1990 and remained sluggish until 1993 as the commodities cycle remained at a low. Government contract losses in 1989 (Venezuela and Peru) weighed on growth, but Intertek was well supported by growth in its Consumer/electrical testing business. *Intertek makes no mention of the consumer recession having affected Consumer testing in the early 1990s.*
- **1997/98 Asia Pacific crisis** – this did not have a particularly significant effect on Intertek’s business (the effect was somewhat more pronounced at SGS). Caleb Brett revenues in Asia Pacific were hit because of lower petrol consumption and refining, with the downturn biting in both 1998 and 1999. The decline in revenue growth in Chart 8 in 1999 was due principally to the loss of the Nigerian government services contract, but the ETL SEMKO division also weakened, with growth slowing to 2% in 1999 from 7% in

1998 (Asia Pacific ETL was the fastest growing business line in the mid-1990s). Excluding Government services, Intertek’s group growth slowed to 11% y/y in 1999 from 15% in 1998 and 9% in 1997 (including the now discontinued operations). Growth in 1998 was even higher if we exclude the disposed-of Minerals business.

- **2001/02 recession** – Intertek’s organic growth did slow during this period, however, the tail-off was by no means dramatic. Caleb Brett weakened due to deteriorating trading in traditional cargo inspection, while ETL slowed due to a sluggish telecoms market. Both businesses saw their margins weaken. Consumer Goods remained robust, with margins continuing to rise.

Chart 9: Intertek’s long-term EBITA margin



Source: Intertek, Inchape, UBS estimates

Organic growth estimates

We have made our own calculations of Intertek’s organic growth rate prior to 1995. We do this by subtracting acquisitions (detailed below) and adjusting for US dollar currency movements (we still assume the US dollar makes up about 80% of revenues in the 1980/90s).

Table 4: Known Intertek acquisitions between 1986 and 1993

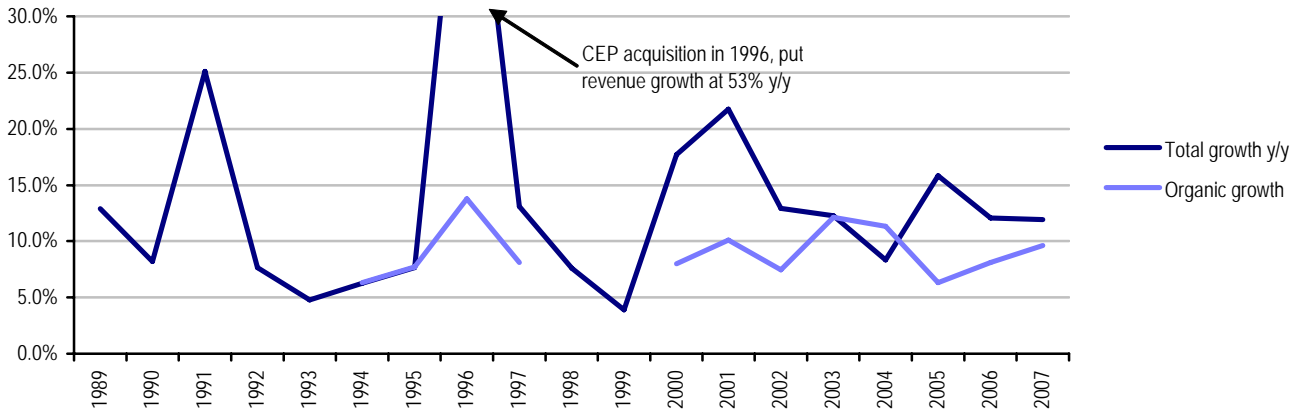
Date	Name	Deal value £m	Historical sales £m	Acq revenues as % of group	Historical EBITA £m	Comment
May-86	Intertek Services Corporation by Inchcape	17.9	28.0	34.0%	2.6	Revenue based on 10% margin (UBSe)
Oct-88	ETL Testing Laboratories & PKB Scania	12.5	14.0	13.5%		Revenue based on c0.9x EV/Sales (UBSe)
Jan-89	Bondar Clegg	5.3	9.5	7.2%		
May-90	West-Paine & NDRC		5.4	4.0%		
Feb-91	Aquatec & Anamatrix		7.1	4.6%		
Mar-91	Dash, Strauss & Goodhue Inc		5.6	3.6%		
Oct-92	Warnock Hersey Professional Services		7.0	3.8%		
Apr-92	Sigma Controle	<£1.0m	1.5			Revenue based on c1.5x EV/Sales (UBSe)
1993	Dahl Chemical Inspection & Inteco Inc					No details disclosed on either acquisition
May-94	SEMKO		12.7			

Source: UBS, Textiline, RNS, Inchcape

Bureau Veritas

Bureau Veritas’ long-term growth rates are a little more difficult to examine. The company has made several large acquisitions (most notably CEP in 1996) in the past 15 years.

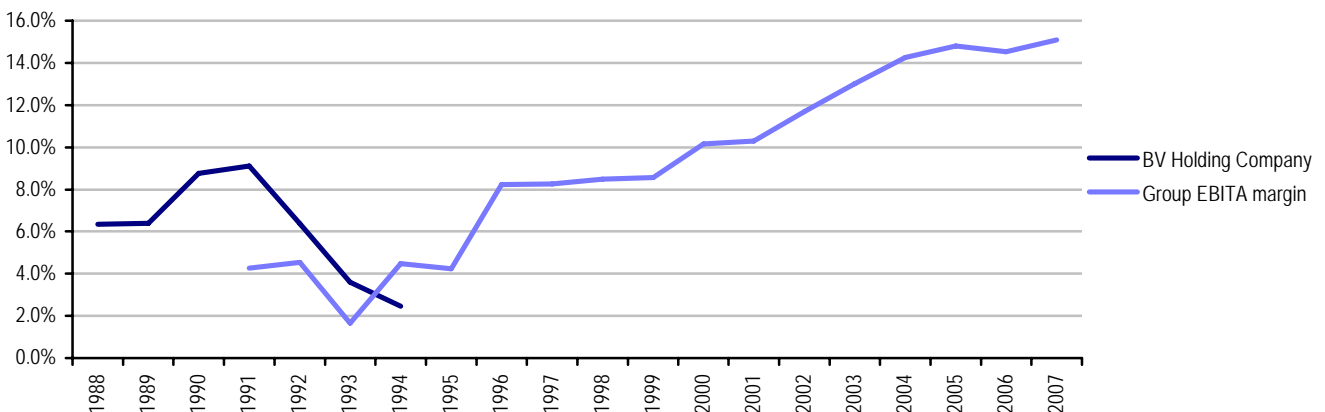
Chart 10: Bureau Veritas long-term revenue growth



Source: Bureau Veritas, UBS estimates

- **1990/91 collapse in commodities markets/global recession** – BV only had limited direct exposure to commodities but weaker margins in the early 1990s also suggest lower growth had an impact on the company’s profitability.
- **1997/98 Asia Pacific crisis** – the downturn in emerging markets caused BV to miss its internal targets in 1998 (set only a year before). BV did not lose any significant government contracts until 1999. Instead, BV suffered from weaker trading in construction, commodity-related industrial activity, and a shortfall in commodity-related offshore marine activity.
- **2001/02 recession** – BV described 2001 as ‘challenging’ but actually recorded a pick-up in organic growth. However, growth slowed in 2002.

Chart 11: Bureau Veritas long-term EBITA margin



Source: Bureau Veritas

Valuation

We downgrade **Bureau Veritas** to Sell from Neutral, and it remains our least preferred of the Inspection & Testing stocks. We also downgrade **Intertek** to Sell from Neutral. Our rating on **SGS** moves to Neutral from Buy. We trim our price targets.

We downgrade the Inspection & Testing companies by 'one-notch'

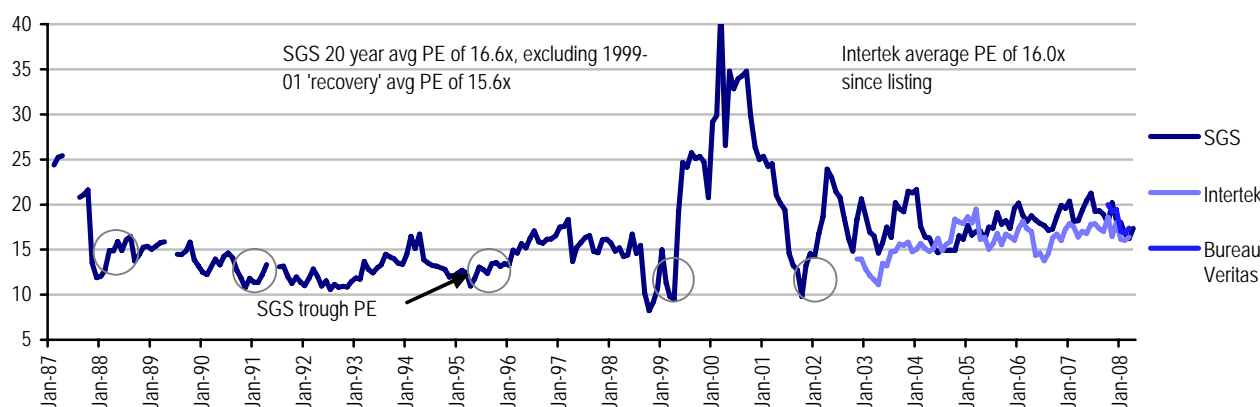
Table 5: Inspection & Testing valuation table

	Rating	Price Target	Share Price	Upside %	EV/EBIT		P/E		Diff vs Cons		Valuation Basis
					2008	2009	2008	2009	2008	2009	
Bureau Veritas	Sell	€ 33.0	€ 37.5	-12.1%	13.2	12.5	16.7	15.7	3.8%	-3.9%	DCF (WACC 8.8%, g = 3%)
Intertek	Sell	950p	1019p	-6.8%	13.0	12.4	17.5	16.6	1.0%	-4.4%	DCF (WACC 8.7%, g = 3%)
SGS	Neutral	CHF 1,520	CHF 1,452	4.7%	13.1	11.9	18.7	17.6	2.1%	-2.1%	DCF (WACC 9.0%, g = 3%)
Average					13.1	12.2	17.6	16.6			

Source: UBS estimates

We think scope for further near-term share price outperformance is limited, even if H1 08 results do prove to be strong (which we fully expect). Price outperformance will be limited by the current share price levels and the prospect of weaker economic growth. The Inspection & Testing companies' premium ratings might be tested too.

Chart 12: Long-term I/B/E/S forward PEs – SGS, Intertek, and Bureau Veritas



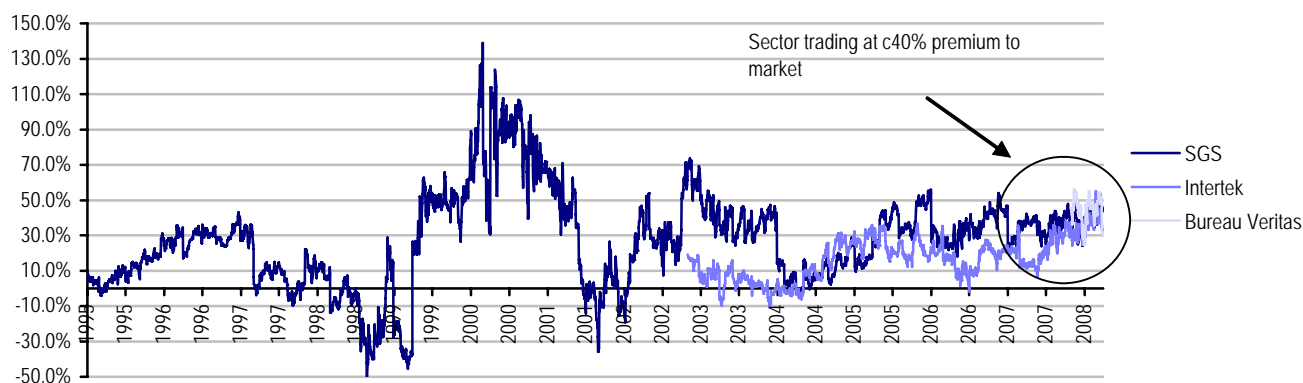
Source: Thomson Financial, UBS

Note: SGS (20-yr avg of 16.6x, currently 17.3x), Intertek (5-yr avg of 16.0x, currently 16.4x) and Bureau Veritas (6-month average of 18.0x, currently 17.4x)

All the Inspection & Testing companies are trading on similar multiples of between 16-17x 2009E, which is in line with recent five-year averages. However, given the de-rating in broader equity markets, the Inspection & Testing companies are now trading at a c40% premium versus other industrials and about 50% against MSCI Europe. The room for a further re-rating looks fairly unlikely, in our view.

The room for a further re-rating looks fairly minimal, in our view

Chart 13: Inspection & Testing PE relative to MSCI Industrials PE multiple



Source: Thomson Financial

DCF and reverse-DCF

In Table 6 we show our valuation methodologies for the Inspection & Testing companies.

Using a reverse-DCF, we find that the growth and margin assumptions factored into the share prices leave the Testing & Inspection companies fairly-valued, particularly given the point we are at in the economic cycle.

- (1) At the current share price and by assuming about 6% mid-term growth for the Inspection & Testing companies we find that **long-term margins are no more than 200bp lower than current levels**. We find it sensible to assume that over the long term, margins decline as cost inflation, weak pricing power, and competitive pressure prevent margins from seeing much upside.
- (2) At the current share price and by assuming margins in between peak and long-term averages, we find that **at least 6% organic growth is factored into the share prices** of inspection and testing companies. While this is lower than historical averages (particularly when excluding government contract losses) we believe it is prudent to assume that mid-term growth rates are lower as these businesses mature.

SGS seems to have the most optimistic assumptions factored in, but we are comfortable with this given the company's broad base, revenue mix, and balance sheet strength.

Table 6: Summary of DCF valuation

		Bureau Veritas	Intertek	SGS	Comment
Recommendation		Sell	Sell	Neutral	
Price Target		€ 33	950p	1,520 CHF	
Current share price		€ 38	1,019p	1,452 CHF	
Top line growth	Historical average	14%	12%	9%	Historical: Intertek 1985-2007, SGS 1985-2007, BV 1989-2007
	5 year average	12%	13%	13%	
	2007 actual	12%	17%	14%	
Organic growth	Historical average	6%	10%	7%	Historical: Intertek 1995-2007, SGS 1990-2007, BV 1994-2007
	5 year average	10%	11%	10%	
	2007 actual	10%	13%	12%	
Margins	Historical average	9.2%	10.7%	10.0%	Historical: BV 1991-2007, Intertek 1995-2007, SGS 1990-2007
	5 year average	14.3%	15.8%	14.6%	
	2007 actual	15.1%	15.7%	16.3%	
Capex to sales	Historical average	2%	5%	6%	Historical: Intertek 1995-2007, SGS 1996-2007, BV 2000-2007
	5 year average	2%	6%	6%	
	2007 actual	3%	6%	8%	
Acquisition expenditure to sales	Historical average	8%	4%	1%	Historical: Intertek 1995-2007, SGS 1996-2007, BV 2000-2007
	5 year average	6%	6%	3%	
	2007 actual	10%	11%	1%	
Targets					
Revenue		€3.7bn revenue by 2011 inc. 8% p.a. organic growth	None	10% organic growth y/y in 2008	
Margin		c16% margin by 2011	None	17% margin	
Earnings		15-20% p.a profit growth	None	80 CHF EPS by 2009 & 105 CHF by 2011	
Reverse DCF					
Assumptions					
WACC		8.8%	8.7%	9.0%	
Cash generation (FCF/NOPLAT)		80%	80%	80%	
Long term tax rate		27.0%	27.0%	27.0%	
Growth assumptions					
Mid-term (2012 to 2020)		5.0%	6.0%	6.0%	
Long term		3.0%	3.0%	3.0%	
Implied margin at current share price		14.5%	14.0%	16.8%	Assuming 50bp margin fade from 2012
Required margin for ROIC = WACC		4.3%	7.5%	7.5%	Assuming 50bp margin fade from 2012
Margin assumptions					
Mid-term from 2012		12.5%	13.4%	13.5%	Set margins to half way between L/T average and peak margins
Implied mid-term growth at current share price		7.0%	6.1%	9.3%	
UBS Price Target derivation					
Growth assumptions					
Mid-term (2012 to 2020)		5.0%	6.0%	7.0%	
Long term		3.0%	3.0%	3.0%	
UBS Margin assumptions					
Mid-term from 2012		12.5%	13.4%	16.7%	Assuming 50bp margin fade from 2012
UBS Price Target		€ 33	950p	1,520 CHF	

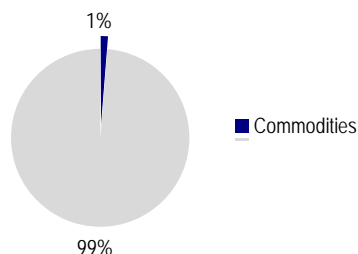
Source: Company data, UBS estimates

In the following five sections we examine the historical performance of each of the core Inspection & Testing service lines – Commodities, Industrial Services, Consumer, Government Services and Marine.

Commodities

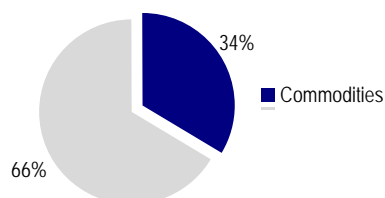
We believe that all three testing companies have to some extent benefited from the commodities cycle. We define commodities as the oil, minerals and agricultural trade/analytical testing businesses of BV, Intertek and SGS.

Chart 14: Bureau Veritas



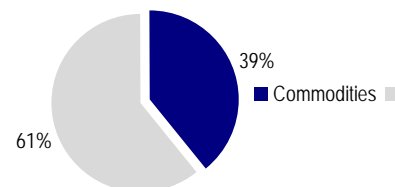
Source: Bureau Veritas

Chart 15: Intertek



Source: Intertek

Chart 16: SGS



Source: SGS

We believe commodities have played an important part in the development of the testing industry – and currently contribute over a third of earnings for Intertek and SGS. While Bureau Veritas’ exposure to commodities remains small (we estimate c1% of EBITA in terms of direct commodities exposure stemming from the GSIT business), its indirect exposure is somewhat greater if we include the inspection and certification it does for the commodities industry (particularly Oil & Gas infrastructure).

Commodities have played an important part in the development of the testing industry

How important are prices?

Our belief has previously been that commodities prices are not particularly important for the testing companies – we saw price volatility, and trading volumes as more important. However, a closer review of historical company literature (back to the mid-1980s) reveals frequent references to linkages between trading conditions and commodities prices.

Commodities prices are probably more important than we initially expected

In Table 7, we show the direction of the CRB Commodities Index (a weighted basket of various commodities) versus comments made by individual companies about the effect of price movements on their commodities businesses.

Table 7: Inspection & Testing companies – historical effects from commodities prices

Year	SGS			Intertek		Bureau Veritas	CRB Index	Commodities
	Agricultural Services	Minerals	Oil, Gas & Chem.	Caleb Brett	Minerals	Industry	Index	
1986	Down		Up	Down			Down	
1987	Down		Down				Up	
1988	Up	Mixed	Up				Up	
1989	Down	Down					Down	
1990	Down	Down	Up				Mixed	
1991		Down					Down	
1992		Down					Down	
1993		Down					Up	
1994	Up		Down				Up	
1995	Up	Up					Up	
1996							Up	
1997							Mixed	
1998		Down	Up	Down	Down		Down	
1999	Down	Down		Down		Down	Down	
2000	Down		Up				Up	
2001	Down		Down				Down	
2002		Up		Down			Mixed	
2003		Up					Up	
2004		Up					Up	
2005		Up					Up	
2006							Up	
2007	Up						Up	

Source: SGS, Intertek, Bureau Veritas, Thomson Financial, UBS

The commodities businesses are generally exposed to two different service lines:

Trade inspection

SGS seems quite geared to commodities trade, more so than Intertek, and SGS makes many citations to commodity price movements – low prices for coal and iron in 1988, cocoa and coffee prices in 1989/90 and cereals in 1990, for example, all seem to have played a part in the volume of inspections being done. 40% of SGS’ Minerals business is trade related, while trade also accounts for a large portion of Agriculture too.

SGS seems quite geared to commodities trade, more so than Intertek

Intertek’s main exposure to trade inspection comes through Oil, rather than Minerals. It used to give quite a useful description of how oil prices used to influence its inspection business – ‘When oil prices are low, traders’ profit margins are depressed and testing activity is reduced causing greater price competition’ (1999 Annual Report). According to previous comments by Intertek, the level of inventories also makes a difference; when oil companies are increasing inventories it will increase testing, but the reverse is also true.

Analytical Services

We would define Analytical Services as high-end laboratory testing, including the outsourcing of testing-related services. This has been a significant driver of Intertek’s revenues over the past five years (outsourcing was 21% of Oil, Gas and Agri revenues in 2001, but about 50% of revenues in 2007).

We are not too sure how cyclical these activities are. We do know that the growth rate of Intertek’s outsourcing business has picked up in recent years, coinciding with the general strength of commodities. Many of these contracts are multi-year outsourcing arrangements but we suspect some portion of future revenues might be related to volumes.

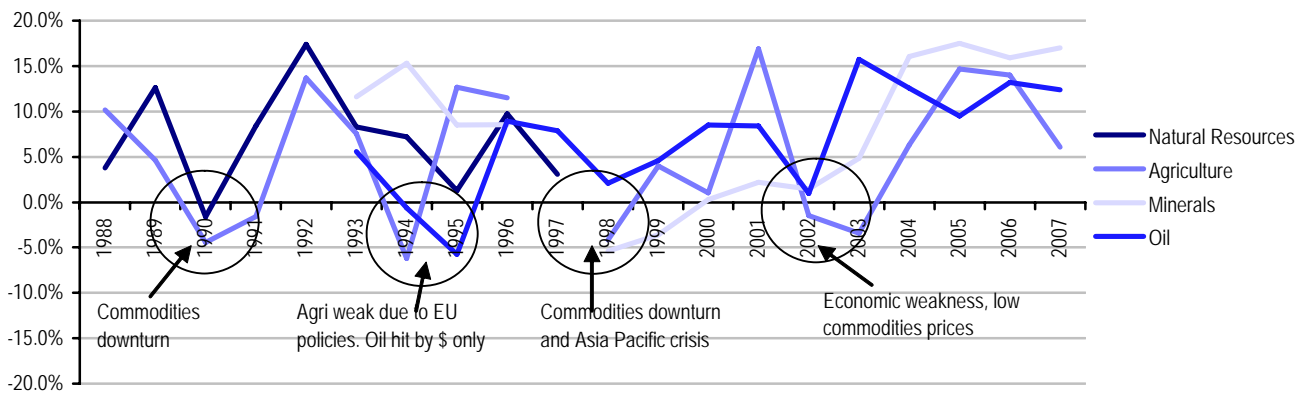
It is worth highlighting that Intertek’s previous Minerals business, Bondar Clegg was orientated towards exploration testing rather than trade inspection. The business proved to be extremely cyclical.

Growth through commodities cycles

SGS has historically carried the most exposure to commodities. Although we do not have information on organic growth rates before 1998, we can see years of negative growth during periods where there was weakness in the commodity markets. We show revenue growth for SGS’ Commodities divisions in Chart 17.

- **In the early 1990s:** The agricultural business did decline between 1990 and 1992. Minerals revenues declined y/y in 1990, but did stage a strong bounce-back in 1992. Oil remained relatively buoyant but growth was slower in 1991.
- **In 1994/95:** Agriculture declined due to new EU agricultural policies that reduced the surplus quantities of grain for export. Oil was affected by a weaker US dollar and growth was satisfactory ex-currency. In 1995 we believe the Oil business was weaker again, led by a lower oil price and tougher end markets. SGS saw price pressure on its own Oil services too.
- **Asia Pacific crisis, 1997/98:** There is limited disclosure on revenues in 1997 for some of the Commodities businesses, but growth in Oil did weaken. In 1998 both Agriculture and Minerals saw negative organic growth due to problems in the commodities industries.

Chart 17: SGS – growth rates of commodities divisions



Source: SGS, UBS estimates

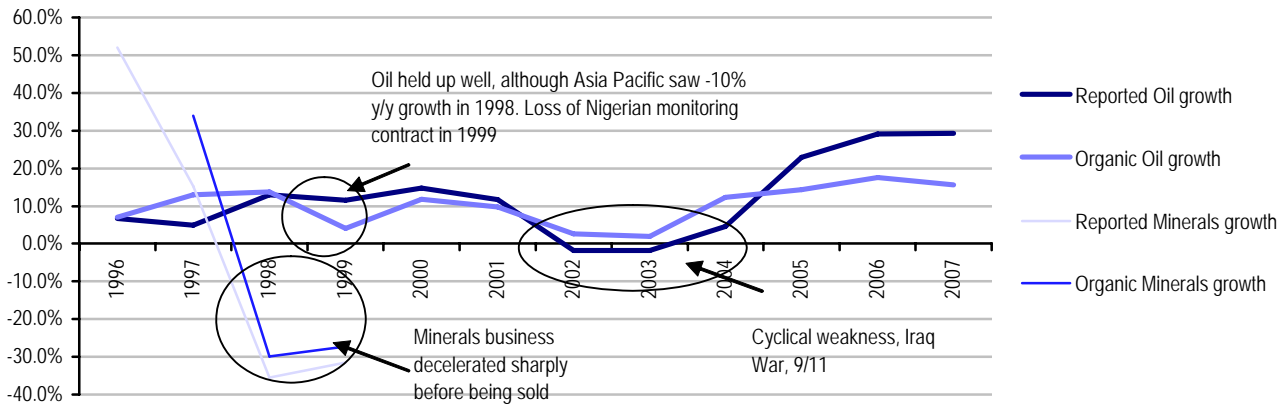
Note: Natural Resources composed of Minerals and Oil (total reported y/y growth). All other divisions use organic growth figures after 1998, but total reported growth before.

We have limited quantitative information on Intertek’s divisional history.

In the early 1990s commodities downturn, qualitative comments from Intertek (when it was owned by Inchcape) suggest that the Mining business (Bondar Clegg) struggled, pretty much right from its acquisition in 1989 until 1992. Intertek’s Oil business (Caleb Brett) does not seem to have experienced too much weakness during this period.

Data from the post-1996 period once again shows a reasonably stable Oil business (formally Caleb Brett), but a **very volatile Minerals business** (Bondar Clegg). We believe some of the underperformance at Bondar Clegg may have been company-specific – but data shows that the business struggled in 1998/99 from reduced levels of exploration activities due to a low gold price. The business was loss-making in 1998/99, and was eventually sold in 2000.

Chart 18: Intertek – growth rates of commodity divisions



Source: Intertek Oil = old Caleb Brett, now referred to Oil, Gas and Agri
 Note: The Minerals business (Bondar Clegg) was disposed of in 2000.

Will this time be different?

We believe the commodities businesses of SGS and Intertek are now more diversified, and have less exposure to traditional trade inspection – an area that seems to be geared to underlying commodity prices.

Commodities businesses are now more diversified, and have less exposure to traditional trade inspection

The Inspection & Testing companies also seem to have diversified their operations in both the upstream and downstream parts of the commodities market, and the shift towards higher-end analytical/outsourcing services should also offer more visibility.

However, in the event of a downturn in the commodities markets, we believe this would place pressure on current growth and margin forecasts for the commodities-related business at SGS and Intertek.

We believe revenue growth could stagnate or even turn negative if commodity markets were to deteriorate.

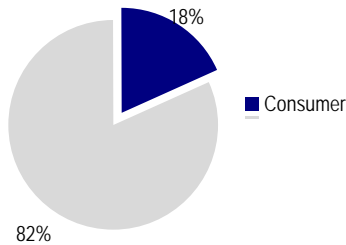
Given that consensus probably has double-digit growth pencilled in for the commodities businesses, there are clear downgrade risks. **However, given the current strength in commodities, the risk of a slowdown is unlikely.**

The risk of a slowdown in commodities seems unlikely, in our view

Consumer

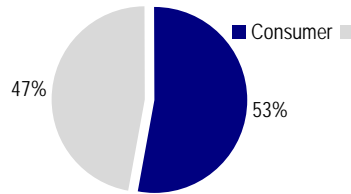
We are cautious on Consumer Testing margins. A combination of cost inflation, potential price pressure, lower trade volumes and a tough operating environment for the Consumer Testing customer base may make 2008 and 2009 tougher years.

Chart 19: Bureau Veritas



Source: Bureau Veritas

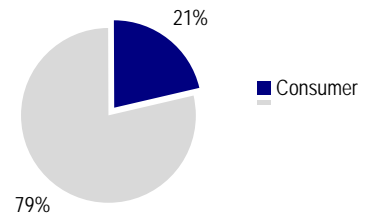
Chart 20: Intertek



Source: Intertek, UBS

Note: We have assumed that 60% of Commercial & Elec. is electrical testing and reallocated this to Consumer.

Chart 21: SGS



Source: SGS

History over cycles

Since 2000, BV, Intertek and SGS have all seen healthy organic growth averaging at least 12% a year for Consumer Goods. The general consensus view is that Consumer Testing is not particularly cyclical. Indeed, growth trends in the 2001/02 recession and during the Asia Pacific crisis do not provide any evidence of cyclicity at all.

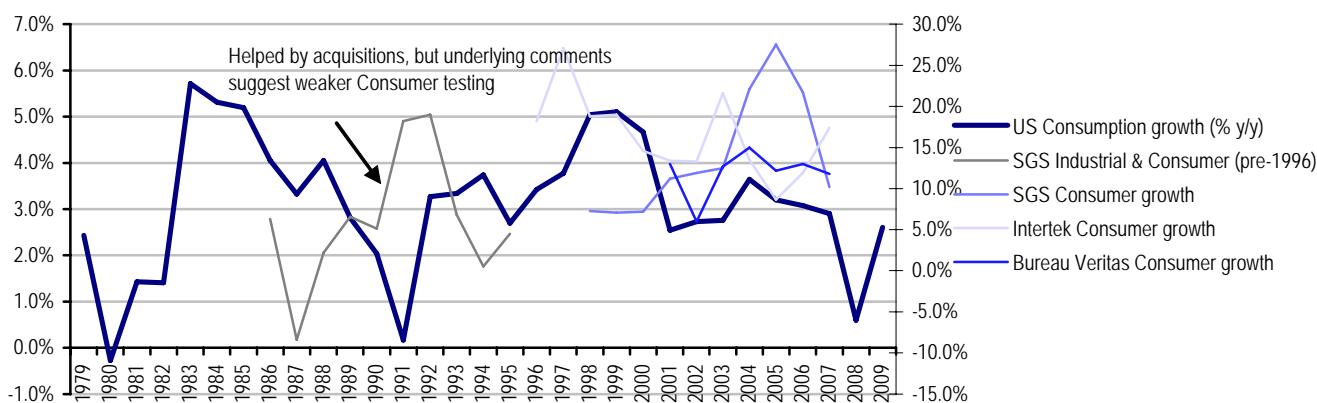
The past 15 years have represented an immense period of structural growth for the Inspection & Testing companies (eg, the 1990s Far East outsourcing trend, new regulations, etc.), but the world has not seen a sustained Consumer demand slowdown since the early 1990s.

In our view, Consumer Testing might be vulnerable to a Consumer slowdown – comments by SGS in the late 1980s and 1990s suggest the slowdown in consumption and poor retail markets did affect its Consumer Testing business. Furthermore, Intertek has previously acknowledged that *Consumer demand growth has been a driver behind* its Consumer Testing division.

BV, Intertek and SGS have all seen healthy organic growth averaging at least 12% a year for Consumer

In our view, Consumer Testing might be vulnerable to a Consumer slowdown

Chart 22: US Consumption growth vs Consumer Testing growth



Source: Company data, BES, UBS estimates

Note: 1986-1996 SGS Consumer was contained within the Industrial & Consumer division and reported actual growth numbers only. Organic growth is given for all data post 1996. In 1995 Industrial & Consumer generated revenues of approximately CHF880m. The pure Consumer division post-1998 generated approximately CHF180m of revenues, suggesting Consumer was perhaps <20% of Industrial & Consumer.

In Table 8 we show some of the comments made by the companies. We find it interesting that SGS made several bearish comments on Consumer Testing in the early 1990s, whereas Intertek did not. In fact, Intertek actually made a series of acquisitions in the Consumer Testing space in 1991/92.

Table 8: Company comments on Consumer Testing

Company comments on Consumer Testing					
	1989	1990	1991	1992	1993
Intertek	Consumer testing market seeing steady growth. Electrical testing growing. Hong Kong and US businesses performing well.	Trend towards 'quality registration' Good results from testing manufactured goods. New lab open in China.	Acquisition of Dash, Strauss & Goodhue Inc Described 'electromagnetic testing as new, but increasingly in demand'	Acquisition of Albury and Sigma <i>No other comments</i>	Good result from textiles and toys in the Far East. Benefited from its expanding global network.
SGS	Market benefited from strengthening safety measures, in particularly in toys Inspection and testing activities grew significantly.	Inspection benefited from rapid increase in toys quality testing. Other consumer satisfactory. Weakness in UK Consumer & Industrial testing due to recession	Hong Kong put under pressure by increased competition and depressed consumer goods sales 'Toy testing remained at previous level'	'Good year for Industrial and consumer products'	'Consumer products were confronted with depressed retail markets in many countries'

Source: Inchcape, SGS

Testing volumes, prices and margins

In our view, rising testing volumes have been a function of three factors: **(1) rising trade flows; (2) increased regulation; and (3) product diversity.** All three have long-term structural drivers behind them, but we would make the following points:

- (a) China to US consumer trade flows have slowed in recent months, as the economic decline has hit consumer demand in the US. High retail inventories, built up in the latter half of 2007 as a result of soft demand, will mean lower orders and production in 2008.

Chart 23: China textile exports – to world and US (growth y/y %)



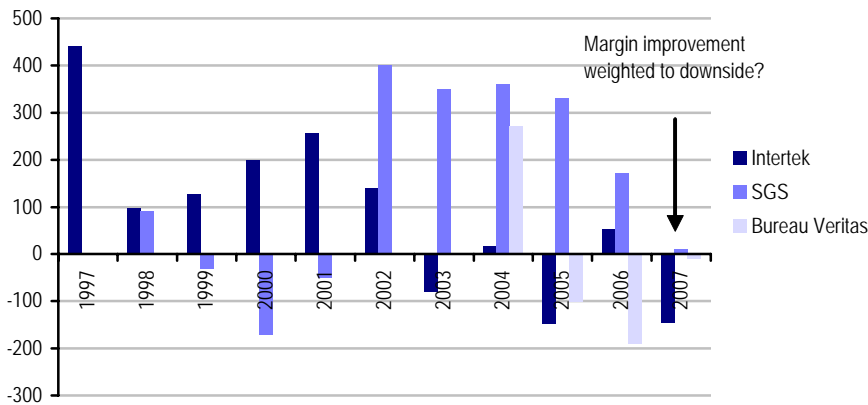
Source: China General Administration of Customs, UBS estimates

- (b) Pricing might weaken in Consumer Testing. The industry has frequently been hit by price pressure in testing over the past three to four years. However, we think the conditions for the clients of Testing companies are far from ideal – cost inflation, combined with lower order volume from US apparel houses/retailers, is probably putting pressure on the margins of the Chinese softline manufactures, and could, in our view, lead to clients negotiating further discounts in testing prices.
- (c) Although none of the testing houses see Asia’s cost/wage inflation as an immediate threat, we do not believe the current environment is particularly helpful. Some of the cost inflation is being offset by relocation to lower-cost inland areas.
- (d) The recent trend in margins does not look particularly positive – Intertek margins were down -140bp y/y (-130bp organically). This is to some extent due to mix effects (eg, RoHS/food/electrical), but we suspect underlying margins are not particularly buoyant either.

Pricing might weaken in Consumer Testing

The recent trend in margins does not look particularly positive

Chart 24: Consumer Testing margins (y/y reported bp change)



Source: Company data

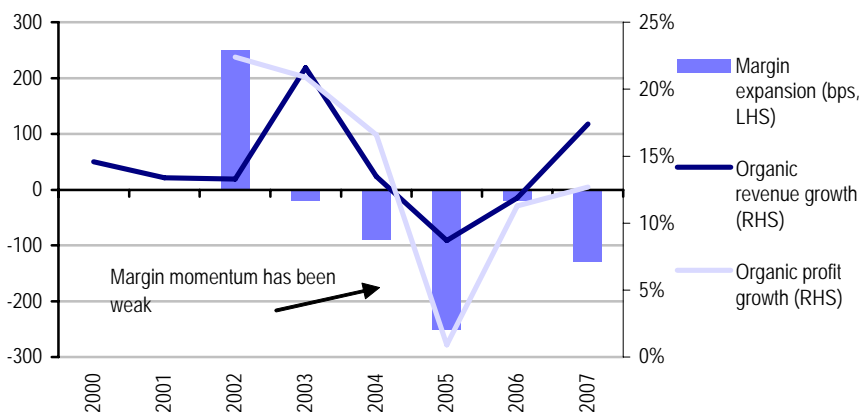
The points above do not imply that we think margins are going to deteriorate significantly as there are various factors that could provide upward pressure for margins – eg, **moving facilities to lower-cost areas** (eg, to inland China), **laboratory optimisation** (Intertek estimates one in 10 consumer labs are not optimised) and initiatives such as **speed to market** (which can carry pricing surcharges for little extra cost).

However, there are various factors that could provide upward pressure for margins

Furthermore, volume flows should still benefit from **product diversity** trends, while **new regulations** should continue to be a major driver behind higher Consumer Testing volumes (eg, various Formaldehyde, Phthalates regulations introduced globally recently, future impact from mandatory US toy testing).

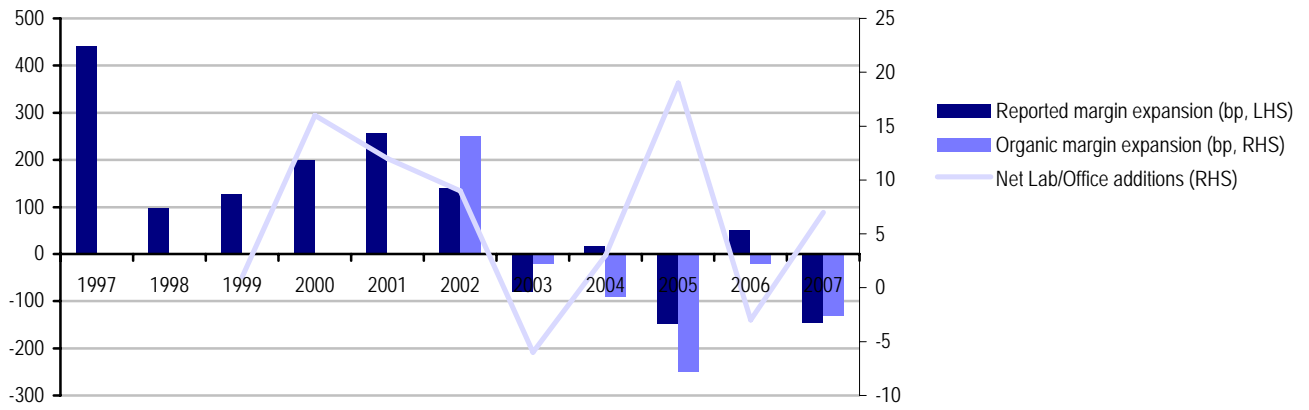
However, we think the risk to margins remains on the downside for Consumer Testing at the Inspection & Testing companies in the near term.

Chart 25: Intertek – Consumer Goods growth and profitability (% , y/y)



Source: Intertek, UBS estimates

Chart 26: Intertek – Consumer margins and office/lab expansion



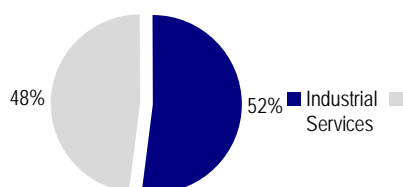
Source: Intertek, UBS

Note: In 2007, Intertek ceased reporting the number of lab/offices by division, but did report that it opened new facilities in seven countries.

Industrial Services

We have grouped several different activities into 'Industrial Services' (see descriptions for each company below).

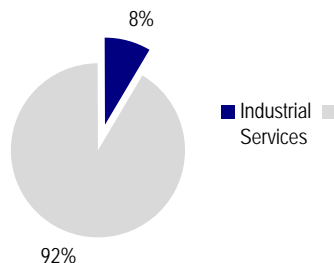
Chart 27: Bureau Veritas



Source: Bureau Veritas

Note: Inc. Certification, Construction, HSE, Industry and Inspection & In-service Verification.

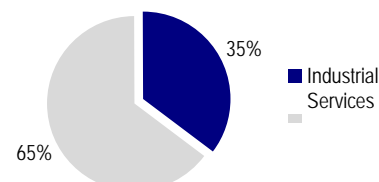
Chart 28: Intertek



Source: Intertek

Note: We classify Industrial Services as Intertek's Commercial & Electrical business, but we exclude electrical testing.

Chart 29: SGS



Source: SGS

Note: Inc. Systems & Services, Industrial, Life Sciences & Services, Automotive, Environmental.

We believe that many of the Industrial Services activities conducted by the Inspection & Testing companies are cyclical.

We find it difficult to display growth rates, much less organic growth, so in Table 9 we show some of the negative and positive comments the companies made on trading over several economic downturns.

Many activities affected by weak growth

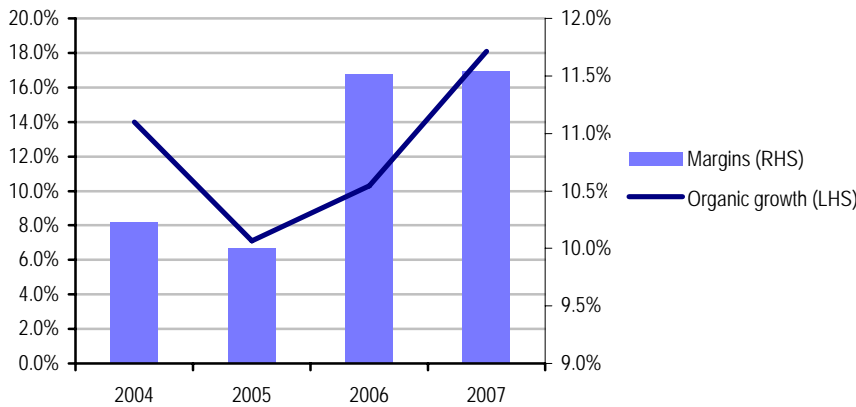
As can be seen in the table, several activities have been particularly affected by weaker economic growth:

Environmental Testing struggled throughout the 1990s, particularly in the US, but Europe also suffered in the 1990s recession. A number of projects were delayed, with the reduced amount of available public financing leading to a slowdown in activities for companies offering Environmental services. Intertek's US business slowed in 1992, but was then hit by competition and falling rates and the company eventually sold its Environmental business in 1998 after about six years of y/y revenue declines. SGS's Environmental business struggled in 1997/98 (although not specifically linked to the Asia Pacific crisis) and in 2001/02.

Environmental Testing struggled throughout the 1990s

Industry (eg, serving oil, utilities, nuclear infrastructure) has been fairly mixed. SGS struggled in 1987 and 1997/98, although its performance was fairly satisfactory in 1991 and 2001/02. Bureau Veritas was hit by recession in Europe in 1990/91. It is likely that the current buoyancy in the commodities markets continues to support the industrial activities of the Inspection & Testing companies.

Chart 30: Bureau Veritas – Industry division margins and growth



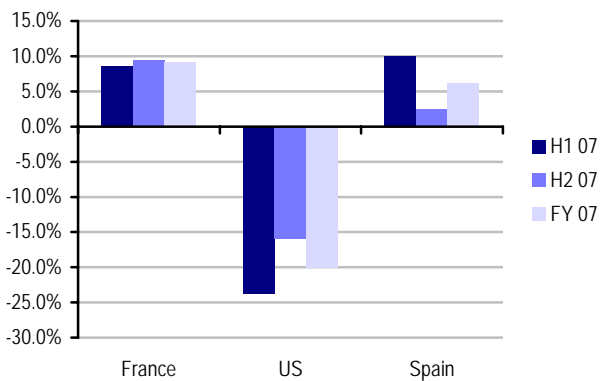
Source: Bureau Veritas

Bureau Veritas has seen particularly high growth from its Industry business – with organic growth running at about 18% in 2007. BV generates 32% of its Industry revenues from Oil & Gas, with a further 9% from Power & Utilities – and has particularly strong exposure to emerging markets (Asia Pacific, Latin America and the Middle East account for about 45% of the division).

Construction is cyclical. BV’s business is currently seeing some weakness in its US and Spanish operations, but its high exposure to France is helping. We believe BV’s US business was loss-making in H2. Looking back long term, Construction was also weak in 1998 with revenues down about -5% y/y at actual rates. However, Construction held up well in 2001/02.

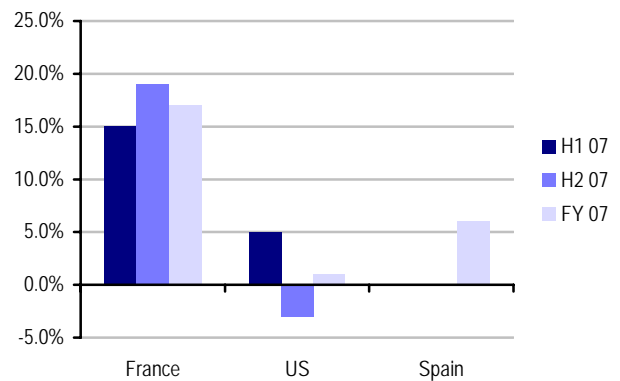
BV is seeing weakness in its US and Spanish Construction operations

Chart 31: BV Construction – organic growth



Source: Bureau Veritas, UBS estimates

Chart 32: BV Construction – EBITA margins



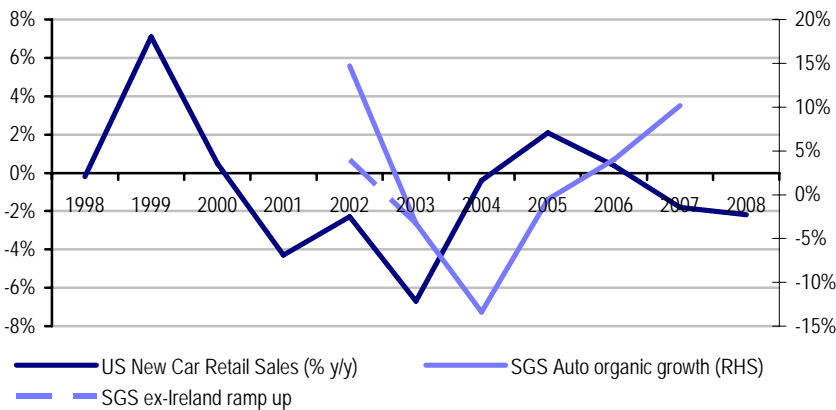
Source: Bureau Veritas, UBS estimates

Note: No half yearly data for Spain.

Automotive testing/certification has historically been cyclical. Intertek’s Auto Component business (about 1-2% of group revenues, and 10% of Commercial & Electrical revenues) struggled in 2006 because of the downturn in the US motor industry and the business had to be restructured. SGS’s Auto business is rather more material (5-6% of revenues) and seems quite geared into the US. As shown

in Chart 33 below, the SGS Automotive business slowed in 2003 and 2004, but remained buoyant in 2001/02 because of increases in off-lease inspections in the US, and the ramp-up of the Ireland contract (Ireland revenue up 50% y/y in 2002, with the contract c25% of the auto business). Overall, SGS's Automotive business proved to be more late-cyclical, as by 2003 growth was negative as auto makers offered discounts for early-lease terminations. SGS's Automotive business should show greater resilience in the future as c60% of revenues are now from statutory inspections (Ireland auto testing contract, UK cabs, Morocco, etc).

Chart 33: SGS Auto growth vs US Auto retail sales



Source: Autodata Corporation, Thomson Financial, SGS, UBS

Note *Ireland ramp-up: SGS states that Ireland revenues were up 50% y/y in 2002. The contract was worth €39m or approximately CHF60m in 2005 (according to the Irish NCT), ie, about 25% of the Auto business. A 50% ramp-up might equate to approximately a CHF20m revenue uplift at most and would have knocked a maximum of 10 percentage points off Auto organic growth.

Certification tends to be more linked to the ISO cycle. Certification was weak in 2001, partly because of telecoms, but also because of the timing of the cycle with a new ISO standard available the following year. There was much better certification growth in 2002. Intertek reported in 1998 and 1999 that EU standard harmonisation, and a new trend of 'self-certification' negatively affected its business but this was not linked to the economic cycle.

Table 9: Comments on Industrial Services performances over economic cycles

Performance under previous downturns				
	1987 slowdown	1990/91 recession	1997/98 Asia Pac. crisis	2001/02 recession
Bureau Veritas				
Certification			Very strong growth, particularly in France	
Construction			Fell -5% y/y	Buoyant. Strong international growth in 2001
HSE				
Industry		European markets hit by recession. France okay	Weaker growth in oil & gas, but BV grew well	
Inspection				
Intertek				
Comm & Elec*		Helped by new EC standards	Good growth in Asia, but 1998 saw trend towards 'self-certification' following EU standard harmonisation	Telecoms weighted, but increased testing of building products and HVAC equipment in US in 2002
SGS				
Autos		Benefited from new biz in Spain & Argentina	US & Ireland autos business benefited from new contracts	Late-cyclical weakness in US, off-set by UK & Ireland
Environmental	US Environmental testing satisfactory	Europe hit by project delays and reduced public financing	Very poor. US & European labs struggling for years	US hit by public funding issues, and pricing pressure
Industrial	Depressed US nuclear inspection market, poor growth in European industrial inspection & NDT	Satisfactory performance	Weakness in NDT. France particularly poor and had to be restructured. UK & Italy also weak	Held up well
Life		Improved despite competitive market and recession		Weak performance in France/US, other areas (IT, BE) okay
Systems		Did well due to new certification activities	US hit by competition, slow adoption of ISO 14,000	2001 weak due to certification cycle, improvement in 2002

Source: UBS

In the table above, we display some of the comments made by the Inspection & Testing companies for their Industrial Services divisions.

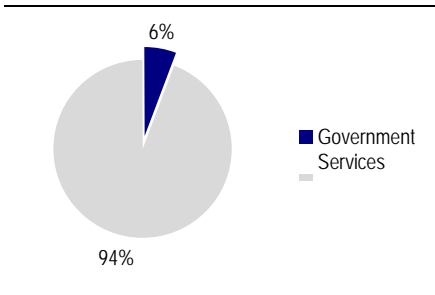
Government Services

The performance of the Government Services is correlated with emerging markets growth and global trade. In the Asia Pacific/Latin America crisis of 1997/98 SGS was immediately hit by lower underlying volumes and contract losses in 1998; BV and Intertek deteriorated soon afterwards.

Government Services has proved to be cyclical historically, but exposure has been significantly reduced since 1998 and the cyclicality is linked to emerging, rather than developed markets. Government Services now averages about 5% of revenues for the Inspection and Testing companies compared to a peak of about 18% of revenues in 1998.

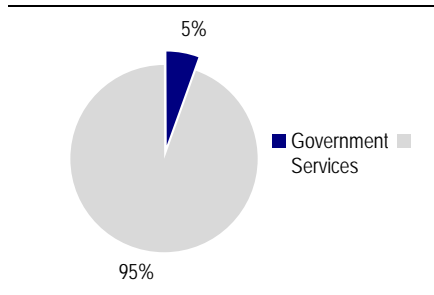
Exposure to Government Services has been significantly reduced since 1998

Chart 34: Bureau Veritas



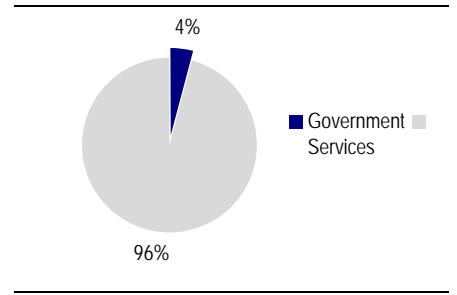
Source: BV
 Note: Assuming 80% of Government Services is government/trade related, remainder is commodities

Chart 35: Intertek



Source: Intertek

Chart 36: SGS

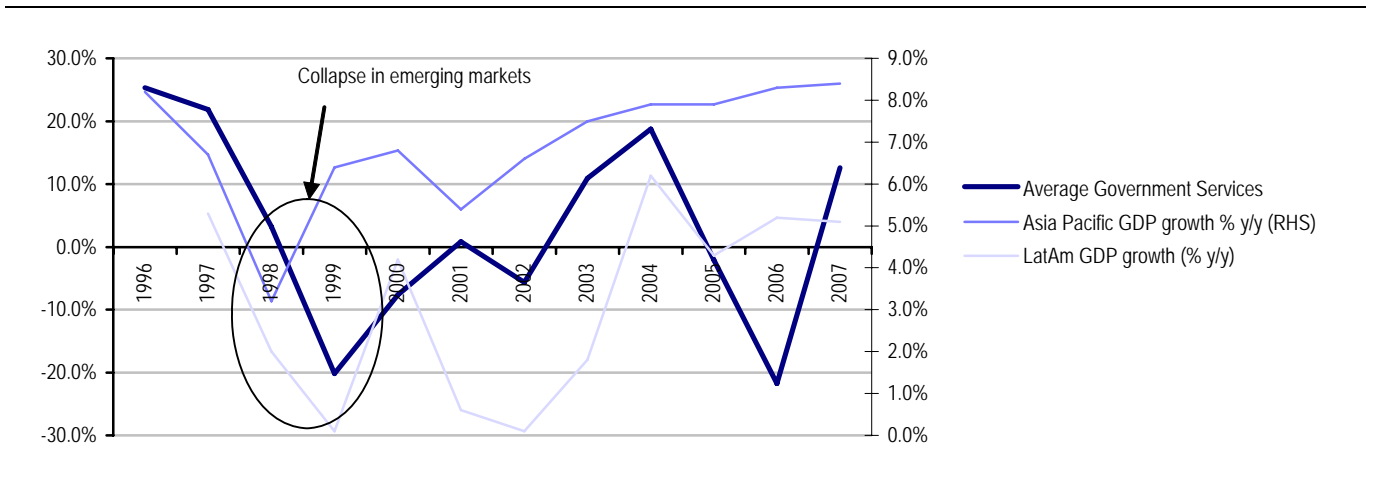


Source: SGS

Highly correlated to emerging markets

In 1998, Government Services businesses were severely affected by the Asia crisis, with many client countries experiencing a major contraction of imports. Latin America and the financial crisis in Russia also made trading tougher. This led to not only an underlying decrease in volumes inspected, but the volatility in emerging markets also coincided with large contract terminations.

Chart 37: Government Services growth (average of BV, Intertek, SGS) vs emerging markets GDP growth y/y



Source: Bureau Veritas, Intertek, SGS, UBS
 Note: We use organic growth averages where possible (BV is total reported growth pre-2003, Intertek is reported growth in 1996, SGS has no data pre-1998).

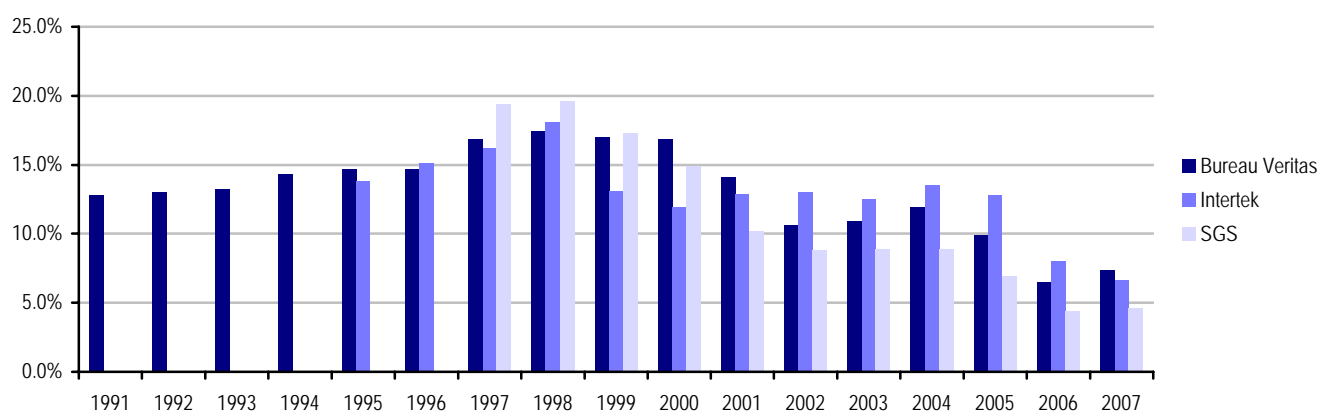
- SGS was hit by the completion of the Indonesian contract and non-renewal of Pakistan in 1997, Zambia was suspended in 1998, while contract losses in Tanzania, Bolivia, Paraguay and Cambodia (the latter two technically suspensions) in 1999 weighed. The financial crisis in Russia also did not help.
- Intertek’s Government business did not seem to be affected by the Asia crisis. However, it did lose other contracts in emerging markets – Tanzania and Columbia were lost in 1998, although the main hit came from the termination of the Nigerian PSI contract by the government in 1999.
- Bureau Veritas managed to avoid contract losses in 1998 and saw 12% y/y revenue growth in its trade division. However, although Bureau Veritas makes no mention of contract losses in 1999, lower trade volumes in underlying contracts meant revenues in Trade declined 20% y/y in 1999, with the Latin American operations down 30% y/y.

The good news – it is now less important

As Chart 37 shows, the slowdown in GDP growth in 1997/98 in the emerging markets coincided with negative growth in the Government Services businesses of the Inspection & Testing companies. If economic growth in emerging markets were to deteriorate, it is likely that Government Services would be affected. However, the overall effect on the companies is likely to be somewhat muted, given that:

- (a) Government Services now only accounts for about 5% of revenues (and an even lower level of profits) for the Inspection & Testing companies.
- (b) There has been a shift in business mix within Government Services away from traditional Pre-Shipment and Inspection. Companies such as Intertek are examining and investing in opportunities like Standards, Scanning and Supply Chain Security. These activities may prove to be cyclical too, but hopefully the volatility from large contract losses will be diminished.

Chart 38: Government Services as a % of revenues



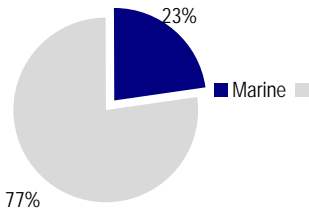
Source: Company data

Note: Bureau Veritas – Commerce & International in 1991-1999, Government Services in 2000-2007.

Marine

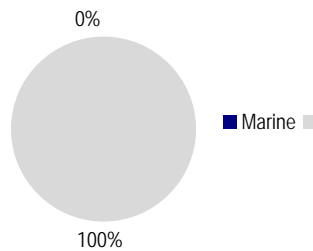
UBS expects global new ship orders to fall 33% in 2008 and 17% in 2009 (see 'UBS Global I/O TM: Global Shipbuilding – Industry momentum fading', by Yong-Suk Son). We believe this will put pressure on the Marine certification activities of Bureau Veritas and expect growth and margins to weaken significantly in 2010.

Chart 39: Bureau Veritas



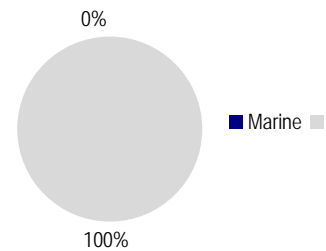
Source: Bureau Veritas

Chart 40: Intertek



Source: Intertek

Chart 41: SGS



Source: SGS

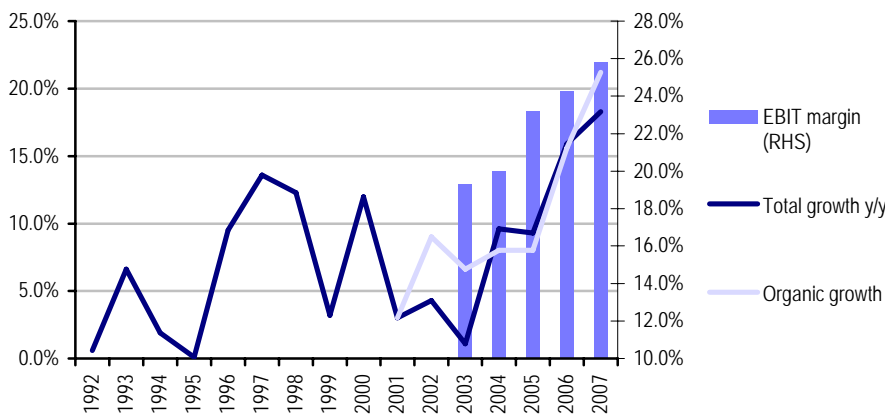
Bureau Veritas's Marine business generated higher growth in 2007 than it did at any point over the past 15 years, while recent margin expansion has also been impressive.

Bureau Veritas' Marine business generated high growth in 2007...

However, Marine's **50% exposure to new ship construction** (including equipment certification) makes the business vulnerable to the shipping cycle.

...with new ship build a big driver

Chart 42: Bureau Veritas – Marine margins and growth

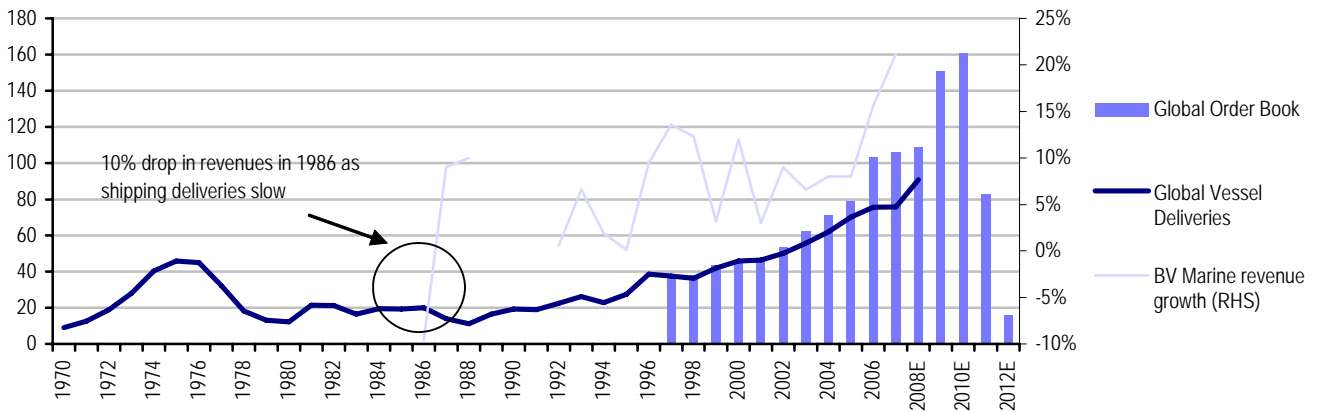


Source: Bureau Veritas

Solid track record, but has been vulnerable

We note that in 1986 when global shipping deliveries eased, BV saw a -10% y/y decline in revenue, which corresponded with flat shipping deliveries and a -2% decrease in the global tanker and bulker fleet (the fourth consecutive year of decreasing fleet numbers). However, BV's Marine business did rebound with c9-10% annual revenue growth over the following two years. This corresponded with a return to growth in tanker and bulker numbers (positive growth from 1988), although ship deliveries remained weak until 1989. Other periods of softness include sub-5% growth in 1992, 1994/95, 1999 and 2001.

Chart 43: Global order book and ship deliveries (m DWT) and BV Marine revenue growth y/y



Source: Clarksons, Bureau Veritas, Lloyd's List, UBS
 Note: We use actual y/y growth pre-2001 for Bureau Veritas, but organic growth post-2001.

Exposure to new build has been growing

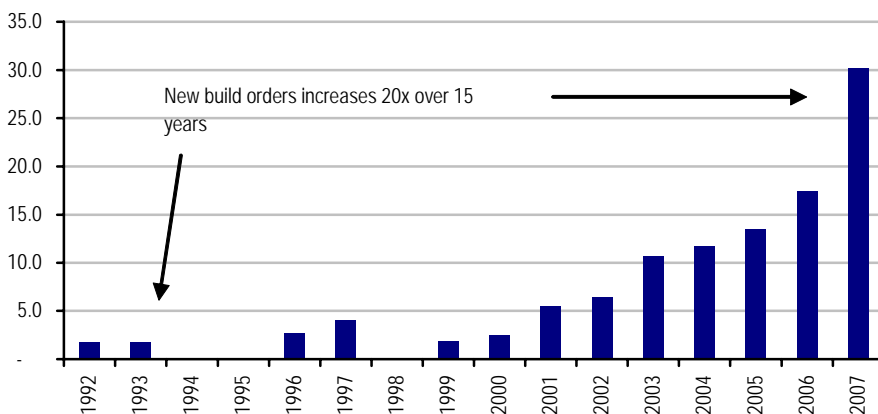
Bureau Veritas’s exposure to new build shipping has been growing. Its order book stood at only 1.7 GRTm in 1992 yet now stands at over 30 GRTm – nearly a 20-fold increase.

Bureau Veritas’s exposure to new build shipping has been growing

In 1992, BV had about 241 vessels on order, but BV received 947 new orders alone in 2006 (the actual backlog of vessels was no doubt somewhat larger) – and this would point towards at least a 4x increase on a like-for-like basis.

We estimate that new build revenues grew about 29% y/y at actual rates, with ships in service revenue growth at about 7% in 2007. Bureau Veritas has thus benefited from the surge in ship build. Its 18.5% new order market share is higher than its market share for ships in service.

Chart 44: Bureau Veritas – Marine new build order book (GRTm)



Source: Bureau Veritas
 Note: No data available in 1994-1995 and 1998.

New build activity has probably benefited margins too. While management points out the superior margins that BV generates compared to its peers (GL is at 20%, DNV at 10% versus BV at 25%) are due to Asia Pacific exposure

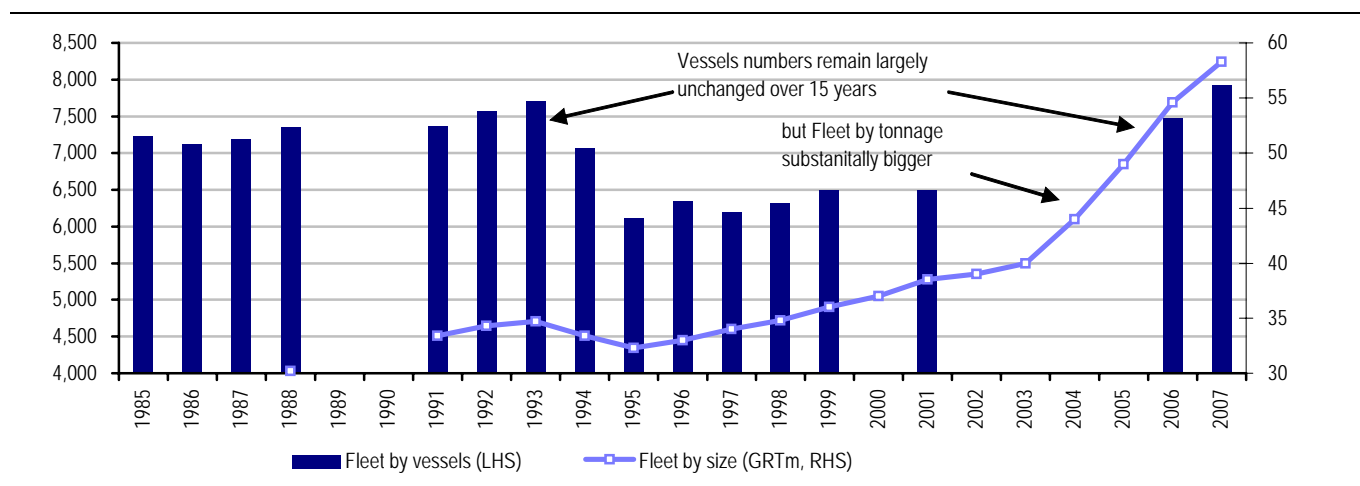
(which has grown from 22% of revenues in 1996 to 31% of revenues in 2006, with BV capturing a 30% market share in Chinese shipping classification) and IT/technology advantages, in our view, it is perhaps not a coincidence that strong margin expansion has also been timed with increased ship construction activities.

New construction activity is carried out under specific contracts of 12 to 24 months for each ship both with the shipyard and the manufacturers of equipment/components. The lead time of new ship building makes it likely that BV's 15%+ organic growth in 2006/07 is generated from 2008 and 2009 ship deliveries.

Ships in Service provides a revenue base

The number of ships that Bureau Veritas classifies is no different than the level 15 years ago – at just under 8,000 vessels. However, looking at fleet by size/tonnage shows that BV's fleet has nearly doubled to about 60 GRTm in 2007 since the mid-1990s.

Chart 45: Bureau Veritas – fleet by size and number



Source: Bureau Veritas

Note: No data for fleet by number of vessels for 1991, 1999, 2000 and 2002-05.

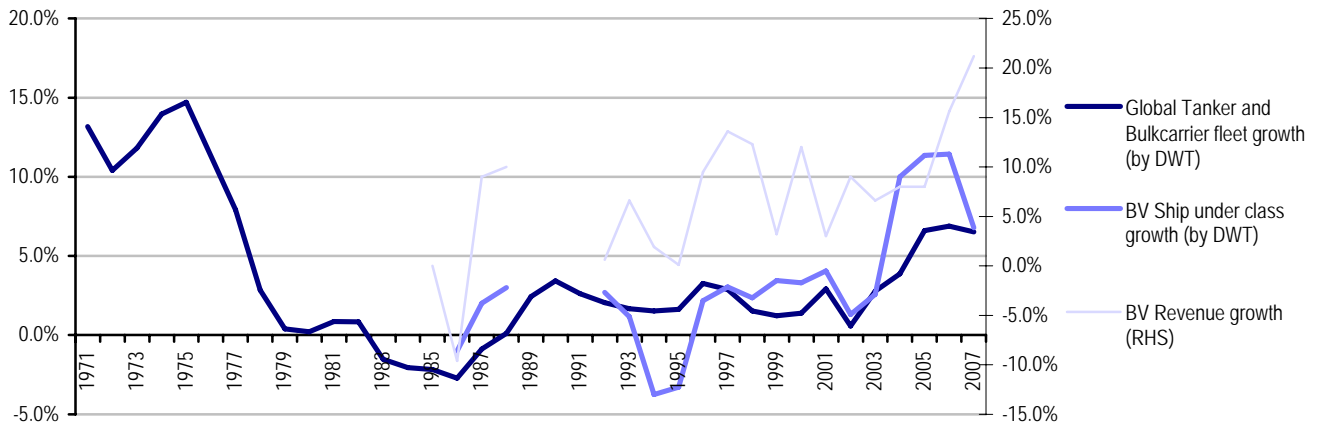
BV management believes that ‘Ships in Service’ revenue grew by about 7% in 2007. This corresponds to a 6% increase in vessel numbers and a 7% increase in tonnage. Based on company information, management believes that Ships in Service should grow **about 12% y/y in 2008 and 15% in 2009**.

While it may be encouraging that half the business should continue to grow at double-digit rates, our main concerns are that:

- (a) The growth in Ships in Service depends somewhat on new orders being constructed and brought in to service;
- (b) Any positive momentum in Ships in Service could be overwhelmed by a deterioration in new ship construction.

In Chart 46 we track the growth in the Global Tanker and Bulkcarrier fleet with the growth in Bureau Veritas’s ships under class (Tankers and Bulkers represented about 53% of BV’s class in 2006).

Chart 46: Global tanker and bulk carrier fleet vs BV ships under class growth and revenue growth (RHS axis)



Source: Clarksons, Bureau Veritas, UBS estimates
 Note: We use actual y/y growth pre-2001 for Bureau Veritas, but organic growth post-2001.

We believe the strong revenue growth seen in 2006/07 is the result of increases in BV’s fleet size and also the heavy levels of new-build activity happening globally, into which BV has become increasingly geared.

Any deterioration in new-build revenues would have a detrimental impact on the division – and we are worried about revenue momentum in late-2009 and 2010. The high level of operational gearing increases the earnings impact.

A deterioration in new ship build would have a detrimental impact on revenues

Forecasts and sensitivities

Bureau Veritas

We lower our 2009 and 2010 estimates for Bureau Veritas by 8% and 9%, respectively. We expect the Marine business to weaken in 2010 as revenues from new ship build decline. We expect weakness in Bureau Veritas's Industrial activities in 2009 to lead to lower organic growth and some margin weakness.

Table 10: Bureau Veritas – P&L estimates

Year to December (€m)	2005	2006	2007	2008E	2009E	2010E
Group revenue	1647.2	1846.3	2066.9	2411.7	2549.1	2681.7
Organic growth	6.3%	8.1%	9.6%	8.3%	5.6%	5.4%
EBITDA	271.5	296.0	344.5	406.2	419.8	450.9
EBITDA Margin %	16.5%	16.0%	16.7%	16.8%	16.5%	16.8%
Depreciation	27.7	27.7	32.4	36.0	39.0	42.0
EBITA	243.8	268.3	312.1	370.2	380.8	408.9
EBITA Margin %	14.8%	14.5%	15.1%	15.3%	14.9%	15.2%
Amortisation	3.8	5.0	9.9	13.5	14.0	14.0
Exceptionals	0.0	-6.2	-36.7	0.0	0.0	0.0
Income from Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest Payable	-17.5	-37.9	-47.7	-32.0	-22.0	-15.0
Reported PBT	222.5	219.2	218.4	324.7	344.8	379.9
Taxation (charge)/credit	-66.0	-62.1	-54.8	-86.2	-91.5	-102.4
Post-Tax Income	156.5	157.1	163.6	238.5	253.3	277.5
Minorities	-2.6	-3.1	-5.1	-4.8	-5.1	-5.6
UBS earnings (pre exceptionals)	157.7	162.0	193.2	243.7	258.7	282.2
Reported earnings (basic)	153.9	154.0	158.5	233.6	248.3	271.9
Fully Diluted UBS EPS (€)	13.36	1.44	1.83	2.18	2.33	2.54
UBS EPS (basic, €)	13.59	1.46	1.84	2.25	2.40	2.61
Reported EPS (Basic, €)	13.26	1.39	1.51	2.15	2.30	2.52

Source: Bureau Veritas, UBS estimates

Table 11: Bureau Veritas – divisional revenue estimates

Year to December (€m)	2005	2006	2007	2008E	2009E	2010E
Marine	180.3	209.0	247.2	284.3	312.7	290.8
Organic growth	8.0%	15.6%	21.2%	15.0%	10.0%	-7.0%
Industry	200.3	231.5	299.1	353.0	374.2	396.7
Organic growth	7.1%	10.3%	18.1%	13.0%	6.0%	6.0%
Inspection & In-service Verification	209.4	242.9	268.4	332.8	349.5	370.4
Organic growth	0.0%	9.8%	4.8%	6.0%	5.0%	6.0%
Health Safety & Environment	146.7	188.9	201.2	243.2	252.9	268.0
Organic growth	0.0%	4.1%	0.1%	5.0%	4.0%	6.0%
Construction	354.7	375.4	393.1	457.1	466.2	489.5
Organic growth	0.0%	-10.8%	3.1%	2.0%	2.0%	5.0%
Certification	184.1	230.4	247.1	279.1	295.9	322.5
Organic growth	0.0%	10.7%	6.9%	8.0%	6.0%	9.0%
Consumer Products	209.0	248.3	259.1	290.2	313.4	344.7
Organic growth	12.2%	13.0%	11.8%	12.0%	8.0%	10.0%
Government Services	162.7	119.9	151.7	172.1	184.3	199.0
Organic growth	-5.9%	-10.8%	18.6%	8.0%	5.0%	8.0%
Group revenue	1647.2	1846.3	2066.9	2411.7	2549.1	2681.7
Organic growth	6.3%	8.1%	9.6%	8.3%	5.6%	5.4%
Organic growth ex Government	7.9%	5.6%	9.0%	8.4%	5.6%	5.0%

Source: Bureau Veritas, UBS estimates

Table 12: Bureau Veritas – divisional EBITA estimates

Year to December (€m)	2005	2006	2007	2008E	2009E	2010E
Marine	41.9	51.0	71.0	82.4	90.7	69.8
Margin	23.2%	24.4%	28.7%	29.0%	29.0%	24.0%
Industry	20.0	26.7	35.0	42.4	41.2	51.6
Margin	10.0%	11.5%	11.7%	12.0%	11.0%	13.0%
Inspection & In-service Verification	25.9	25.5	24.1	32.6	31.5	40.7
Margin	12.4%	10.5%	9.0%	9.8%	9.0%	11.0%
Health Safety & Environment	7.0	16.9	11.6	17.0	17.7	18.8
Margin	4.8%	8.9%	5.8%	7.0%	7.0%	7.0%
Construction	36.9	35.7	45.6	50.3	51.3	53.8
Margin	10.4%	9.5%	11.6%	11.0%	11.0%	11.0%
Certification	33.5	42.7	46.0	55.8	53.3	64.5
Margin	18.2%	18.5%	18.6%	20.0%	18.0%	20.0%
Consumer Products	50.1	54.8	57.1	63.8	65.8	75.8
Margin	24.0%	22.1%	22.0%	22.0%	21.0%	22.0%
Government Services	28.4	15.0	21.7	25.8	29.5	33.8
Margin	17.5%	12.5%	14.3%	15.0%	16.0%	17.0%
Group EBITA	243.8	268.3	312.1	370.2	380.8	408.9
EBITA Margin %	14.8%	14.5%	15.1%	15.3%	14.9%	15.2%
EBITA margin ex Government	15.6%	15.4%	16.4%	17.2%	16.6%	16.1%

Source: Bureau Veritas, UBS estimates

We show the changes to our Bureau Veritas forecasts in the tables below.

Table 13: Change to growth assumptions

Year to December (€m)	2009E	Old 2009E	2010E	Old 2010E
Marine	312.7	318.4	290.8	356.6
Organic growth	10.0%	12.0%	-7.0%	12.0%
Industry	374.2	388.2	396.7	425.1
Organic growth	6.0%	10.0%	6.0%	9.5%
Inspection & In-service Verification	349.5	352.8	370.4	374.0
Organic growth	5.0%	6.0%	6.0%	6.0%
Health Safety & Environment	252.9	257.8	268.0	273.2
Organic growth	4.0%	6.0%	6.0%	6.0%
Construction	466.2	470.8	489.5	484.9
Organic growth	2.0%	3.0%	5.0%	3.0%
Certification	295.9	304.2	322.5	331.6
Organic growth	6.0%	9.0%	9.0%	9.0%
Consumer Products	313.4	325.0	344.7	364.0
Organic growth	8.0%	12.0%	10.0%	12.0%
Government Services	184.3	191.3	199.0	208.5
Organic growth	5.0%	9.0%	8.0%	9.0%
Group revenue	2549.1	2608.5	2681.7	2817.8
Organic growth	5.6%	8.1%	5.4%	8.1%
Organic growth ex Government	5.6%	7.9%	5.0%	7.9%

Source: UBS estimates

Table 14: Change to margin assumptions

Year to December (€m)	2009E	Old 2009E	2010E	Old 2010E
Marine	90.7	89.2	69.8	89.2
Margin	29.0%	28.0%	24.0%	25.0%
Industry	41.2	50.5	51.6	55.3
Margin	11.0%	13.0%	13.0%	13.0%
Inspection & In-service Verification	31.5	35.3	40.7	41.1
Margin	9.0%	10.0%	11.0%	11.0%
Health Safety & Environment	17.7	20.6	18.8	24.6
Margin	7.0%	8.0%	7.0%	9.0%
Construction	51.3	51.8	53.8	53.3
Margin	11.0%	11.0%	11.0%	11.0%
Certification	53.3	60.8	64.5	66.3
Margin	18.0%	20.0%	20.0%	20.0%
Consumer Products	65.8	71.5	75.8	80.1
Margin	21.0%	22.0%	22.0%	22.0%
Government Services	29.5	30.6	33.8	35.4
Margin	16.0%	16.0%	17.0%	17.0%
Group EBITA	380.8	410.3	408.9	445.3
EBITA Margin %	14.9%	15.7%	15.2%	15.8%
EBITA margin ex Government	16.6%	17.3%	16.1%	16.7%

Source: UBS estimates

Table 15: Bureau Veritas 2009 sensitivity analysis to varying levels of organic growth

		Base case 2009 estimates																
FY 08		2009 sensitivities																
		15%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%
Marine (Eur m)																		
Revenues		287	290	293	296	299	301	304	307	310	313	316	318	321	324	327	330	
EBITA		75	77	79	80	82	84	86	87	89	91	92	94	96	98	99	101	
EBITA margin	29.0%	26.2%	26.6%	26.9%	27.2%	27.5%	27.8%	28.1%	28.4%	28.7%	29.0%	29.3%	29.6%	29.8%	30.1%	30.3%	30.6%	
EPS impact (% change)		-4%	-4%	-3%	-3%	-2%	-2%	-1%	-1%	0%	0%	0%	1%	1%	2%	2%	3%	
Industry (Eur m)																		
Revenues		342	346	350	353	357	360	364	367	371	374	378	381	385	388	392	395	
EBITA		32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	48	
EBITA margin	12.0%	9.2%	9.4%	9.7%	9.9%	10.1%	10.3%	10.4%	10.6%	10.8%	11.0%	11.2%	11.4%	11.5%	11.7%	11.9%	12.0%	
EPS impact (% change)		-3%	-2%	-2%	-2%	-2%	-1%	-1%	-1%	0%	0%	0%	1%	1%	1%	2%	2%	
Insepection & Inservice Verification (Eur m)																		
Revenues		320	323	326	329	333	336	339	343	346	349	353	356	359	363	366	369	
EBITA		22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	
EBITA margin	9.8%	7.0%	7.3%	7.5%	7.7%	8.0%	8.2%	8.4%	8.6%	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%	10.1%	
EPS impact (% change)		-3%	-2%	-2%	-2%	-1%	-1%	-1%	-1%	0%	0%	0%	1%	1%	1%	1%	2%	
Health, Safety & Environment (Eur m)																		
Revenues		231	233	236	238	241	243	246	248	250	253	255	258	260	263	265	268	
EBITA		11	12	13	13	14	15	16	16	17	18	18	19	20	21	21	22	
EBITA margin	7.0%	4.8%	5.1%	5.3%	5.6%	5.8%	6.1%	6.3%	6.5%	6.8%	7.0%	7.2%	7.4%	7.6%	7.9%	8.1%	8.3%	
EPS impact (% change)		-2%	-2%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	1%	1%	
Construction (Eur m)																		
Revenues		425	430	434	439	443	448	452	457	462	466	471	475	480	484	489	494	
EBITA		39	40	42	43	44	46	47	49	50	51	53	54	55	57	58	60	
EBITA margin	11.0%	9.2%	9.4%	9.6%	9.8%	10.0%	10.2%	10.4%	10.6%	10.8%	11.0%	11.2%	11.4%	11.5%	11.7%	11.9%	12.1%	
EPS impact (% change)		-4%	-3%	-3%	-2%	-2%	-2%	-1%	-1%	0%	0%	0%	1%	1%	2%	2%	2%	
Certification (Eur m)																		
Revenues		271	274	276	279	282	285	287	290	293	296	299	301	304	307	310	313	
EBITA		46	47	47	48	49	50	51	52	52	53	54	55	56	57	57	58	
EBITA margin	20.0%	16.9%	17.0%	17.2%	17.3%	17.4%	17.5%	17.7%	17.8%	17.9%	18.0%	18.1%	18.2%	18.3%	18.4%	18.5%	18.6%	
EPS impact (% change)		-2%	-2%	-2%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	1%	1%	
Consumer Products (Eur m)																		
Revenues		287	290	293	296	299	302	305	308	310	313	316	319	322	325	328	331	
EBITA		55	57	58	59	60	61	62	63	65	66	67	68	69	70	72	73	
EBITA margin	22.0%	19.3%	19.5%	19.7%	19.9%	20.1%	20.3%	20.5%	20.6%	20.8%	21.0%	21.2%	21.3%	21.5%	21.7%	21.8%	22.0%	
EPS impact (% change)		-3%	-3%	-2%	-2%	-2%	-1%	-1%	-1%	0%	0%	0%	1%	1%	1%	2%	2%	
Government Services (Eur m)																		
Revenues		165	167	169	170	172	174	176	177	179	184	182	184	186	188	189	191	
EBITA		20	21	22	23	23	24	25	26	27	29	29	29	30	31	32	33	
EBITA margin	15.0%	12.1%	12.5%	12.9%	13.3%	13.6%	14.0%	14.3%	14.7%	15.0%	16.0%	15.7%	16.0%	16.3%	16.6%	16.9%	17.2%	
EPS impact (% change)		-3%	-2%	-2%	-2%	-2%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	
Group (€m)																		
Revenues		2,328	2,352	2,377	2,401	2,425	2,449	2,473	2,497	2,521	2,549	2,570	2,594	2,618	2,642	2,666	2,690	
Revenue impact		-109	-97	-85	-73	-61	-49	-36	-24	-12	0	12	24	36	49	61	73	
Central costs																		
EBITA		301	309	318	327	336	344	353	362	370	381	388	397	405	414	423	431	
EBITA impact		-40	-36	-31	-27	-22	-18	-13	-9	-4	0	4	9	13	18	22	27	
Group EBITA margin	15.7%	12.9%	13.1%	13.4%	13.6%	13.8%	14.1%	14.3%	14.5%	14.7%	14.9%	15.1%	15.3%	15.5%	15.7%	15.9%	16.0%	
EPS (UBS adjusted diluted)		1.79	1.85	1.91	1.96	2.02	2.08	2.14	2.20	2.26	2.33	2.37	2.43	2.49	2.55	2.61	2.67	
Change to EPS		-23%	-21%	-18%	-16%	-13%	-11%	-8%	-6%	-3%	0%	2%	5%	7%	10%	12%	15%	
Valuation																		
Implied PE multiple at 37 euros		20.7x	20.0x	19.4x	18.8x	18.3x	17.8x	17.3x	16.8x	16.4x	15.9x	15.6x	15.2x	14.9x	14.5x	14.2x	13.9x	

Source: UBS estimates

Intertek

In Table 16 we present our forecasts for Intertek. We have lowered our 2009 estimates by 6% as we expect weaker economic growth globally to push organic growth below trend and bring some modest margin weakness. However, we expect 2008 results to be strong (particularly the first half of 2008), driven by strong commodities and toy testing.

Table 16: Intertek – P&L estimates

Year to December (£m)	2005	2006	2007A	2008E	2009E	2010E
Group revenue	580.1	664.5	775.5	901.9	968.3	1060.9
Organic growth	12.2%	8.1%	13.0%	11.9%	6.9%	9.6%
EBITDA	109.1	128.5	151.6	176.4	185.1	203.0
EBITDA Margin %	18.8%	19.3%	19.5%	19.6%	19.1%	19.1%
Depreciation	22.0	26.3	30.0	35.0	38.0	40.0
EBITA	87.1	102.2	121.6	141.4	147.1	163.0
EBITA Margin %	15.0%	15.4%	15.7%	15.7%	15.2%	15.4%
Amortisation	4.1	4.1	5.5	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Income from Associates & JVs	0.7	0.3	-0.1	0.2	0.2	0.2
Net Interest Payable	-4.3	-7.0	-10.2	-11.0	-8.0	-6.0
Reported PBT	79.4	91.4	105.8	125.6	134.3	152.2
Taxation (charge)/credit	-18.7	-22.5	-27.0	-32.7	-35.7	-41.1
Post-Tax Income	60.7	68.9	78.8	92.9	98.6	111.1
Minorities	-3.6	-5.1	-5.6	-6.6	-7.0	-7.9
UBS Earnings	61.2	67.9	78.7	91.3	96.6	108.2
Reported Earnings	57.1	63.8	73.2	86.3	91.6	103.2
Fully Diluted UBS EPS (p)	39.1	43.2	49.7	57.6	61.0	68.3
Basic UBS EPS	39.5	43.5	50.2	58.2	61.5	68.9
Reported EPS (p)	36.8	40.9	46.7	55.0	58.4	65.7

Source: Intertek, UBS estimates

Table 17: Intertek – divisional revenue estimates

Year to December (£m)	2005	2006	2007A	2008E	2009E	2010E
Oil, Gas & Agriculture	218.0	281.5	364.0	444.7	484.7	533.2
Organic growth	14.4%	17.6%	15.6%	14.0%	8.0%	10.0%
Commercial & Electrical	144.4	167.9	179.1	193.8	201.6	217.7
Organic growth	12.4%	8.7%	8.6%	6.0%	4.0%	8.0%
Consumer Goods	143.2	161.7	181.2	214.2	231.4	256.8
Organic growth	8.7%	11.9%	17.4%	18.0%	8.0%	11.0%
Government Services	74.5	53.4	51.2	49.2	50.7	53.2
Organic growth	10.2%	-27.5%	-0.8%	-4.0%	3.0%	5.0%
Group revenue	580.1	664.5	775.5	901.9	968.3	1060.9
Organic growth	12.2%	8.1%	13.0%	11.9%	6.9%	9.6%
Organic growth ex Government	12.1%	13.4%	14.2%	13.0%	7.1%	9.8%

Source: Intertek, UBS estimates

Table 18: Intertek – divisional EBITA estimates

Year to December (£m)	2005	2006	2007A	2008E	2009E
Oil, Gas & Agriculture	17.9	30.0	45.8	59.1	62.0
Margin	8.2%	10.7%	12.6%	13.3%	12.8%
Commercial & Electrical	22.7	24.6	27.2	29.1	29.2
Margin	15.7%	14.7%	15.2%	15.0%	14.5%
Consumer Goods	44.2	51.6	55.2	62.1	64.8
Margin	30.9%	31.9%	30.5%	29.0%	28.0%
Government Services	16.3	6.6	7.6	7.3	7.5
Margin	21.9%	12.4%	14.8%	14.8%	14.8%
Corporate costs	-14.0	-10.6	-14.2	-16.2	-16.5
Margin	-2.4%	-1.6%	-1.8%	-1.8%	-1.7%
Group EBITA	87.1	102.2	121.6	141.4	147.1
EBITA Margin %	15.0%	15.4%	15.7%	15.7%	15.2%
EBITA margin ex Government	14.0%	15.6%	15.7%	15.7%	15.2%

Source: Intertek, UBS estimates

Table 19: Change to growth assumptions

Year to December (£m)	2009E	Old 2009E	2010E	Old 2010E
Oil, Gas & Agriculture	484.7	496.3	533.2	531.0
Organic growth	8.0%	10.0%	10.0%	7.0%
Commercial & Electrical	201.6	205.2	217.7	217.5
Organic growth	4.0%	6.0%	8.0%	6.0%
Consumer Goods	231.4	235.4	256.8	254.3
Organic growth	8.0%	9.0%	11.0%	8.0%
Government Services	50.7	50.8	53.2	52.3
Organic growth	3.0%	3.0%	5.0%	3.0%
Group revenue	968.3	987.7	1060.9	1055.1
Organic growth	6.9%	8.5%	9.6%	6.8%
Organic growth ex Government	7.1%	8.8%	9.8%	7.0%

Source: UBS estimates

Table 20: Change to margin assumptions

Year to December (£m)	2009E	Old 2009E	2010E	Old 2010E
Oil, Gas & Agriculture	62.0	67.0	69.8	72.2
Margin	12.8%	13.5%	13.1%	13.6%
Commercial & Electrical	29.2	30.8	32.7	32.6
Margin	14.5%	15.0%	15.0%	15.0%
Consumer Goods	64.8	68.3	71.9	71.2
Margin	28.0%	29.0%	28.0%	28.0%
Government Services	7.5	7.6	7.7	7.8
Margin	14.8%	15.0%	14.5%	15.0%
Corporate costs	-16.5	-17.8	-19.1	-19.0
Margin	-1.7%	-1.8%	-1.8%	-1.8%
Group EBITA	147.1	155.9	163.0	164.9
EBITA Margin %	15.2%	15.8%	15.4%	15.6%
EBITA margin ex Government	15.2%	15.4%	15.4%	15.6%

Source: UBS estimates

Table 21: Intertek 2009 sensitivity analysis to varying levels of organic growth

	FY 08	2009 sensitivities															
		14%	-1%	0%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%
Oil, Gas & Agri (£m)																	
Revenues		445	449	454	458	462	467	471	476	480	485	489	494	498	502	507	511
EBITA		48	50	51	53	54	56	57	59	60	62	64	65	67	68	70	71
EBITA margin	13.3%	10.8%	11.0%	11.3%	11.5%	11.7%	12.0%	12.2%	12.4%	12.6%	12.8%	13.0%	13.2%	13.4%	13.6%	13.8%	14.0%
EPS impact (% change)		-11%	-10%	-8%	-7%	-6%	-5%	-4%	-2%	-1%	0%	1%	2%	4%	5%	6%	7%
Electrical & Commercial (£m)																	
Revenues	6%	184	186	188	190	192	194	196	198	200	202	204	205	207	209	211	213
EBITA		23	24	24	25	26	27	27	28	29	29	30	31	31	32	33	33
EBITA margin	15.0%	12.6%	12.8%	13.0%	13.2%	13.5%	13.7%	13.9%	14.1%	14.3%	14.5%	14.7%	14.9%	15.1%	15.3%	15.4%	15.6%
EPS impact (% change)		-5%	-4%	-4%	-3%	-3%	-2%	-2%	-1%	-1%	0%	1%	1%	2%	2%	3%	3%
Consumer (£m)																	
Revenues	18%	212	214	216	219	221	223	225	227	229	231	234	236	238	240	242	244
EBITA		55	56	57	58	59	61	62	63	64	65	66	67	68	69	70	71
EBITA margin	29.0%	26.0%	26.2%	26.5%	26.7%	26.9%	27.2%	27.4%	27.6%	27.8%	28.0%	28.2%	28.4%	28.6%	28.8%	29.0%	29.2%
EPS impact (% change)		-7%	-7%	-6%	-5%	-4%	-3%	-2%	-2%	-1%	0%	1%	2%	2%	3%	4%	5%
Government Services (£m)																	
Revenues	-4%	46	47	47	48	48	49	49	50	50	51	51	52	52	53	53	54
EBITA		5	6	6	6	6	7	7	7	7	7	8	8	8	8	9	9
EBITA margin	14.8%	11.4%	11.8%	12.2%	12.6%	13.0%	13.4%	13.7%	14.1%	14.5%	14.8%	15.1%	15.5%	15.8%	16.1%	16.4%	16.7%
EPS impact (% change)		-2%	-2%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	1%	1%
Group (£m)																	
Revenues	12%	887	896	905	914	923	932	941	950	959	968	977	986	995	1004	1013	1022
Revenue impact		-81	-72	-63	-54	-45	-36	-27	-18	-9	0	9	18	27	36	45	54
Central costs		-15	-15	-15	-16	-16	-16	-16	-16	-16	-16	-17	-17	-17	-17	-17	-17
EBITA		117	120	123	127	130	133	137	140	144	147	150	154	157	161	164	167
EBITA impact		-32	-28	-25	-21	-18	-14	-11	-7	-4	0	4	7	11	14	18	21
Group EBITA margin	15.7%	13.1%	13.4%	13.6%	13.9%	14.1%	14.3%	14.5%	14.8%	15.0%	15.2%	15.4%	15.6%	15.8%	16.0%	16.2%	16.4%
EPS (UBS adjusted diluted)		46.6	48.2	49.8	51.4	53.0	54.6	56.2	57.8	59.4	61.0	62.6	64.2	65.7	67.3	68.9	70.5
Change to EPS		-25%	-22%	-19%	-16%	-14%	-11%	-8%	-5%	-3%	0%	3%	5%	8%	11%	14%	16%
Valuation																	
Implied PE multiple at 1000p		21.5x	20.7x	20.1x	19.5x	18.9x	18.3x	17.8x	17.3x	16.8x	16.4x	16.0x	15.6x	15.2x	14.8x	14.5x	14.2x

Source: UBS estimates

SGS

We remain confident that the first half of 2008 will prove to be resilient and that growth will follow. However, based on the discussion above we do not think that SGS will be completely immune to a slowdown. Nevertheless, the impact from a slowdown will probably be more late-cycle-weighted, given the overall mix of SGS's businesses. Also, it is difficult to quantify the extent and magnitude of impact the slowdown will have for SGS's businesses.

Nevertheless, we have trimmed our top-line 2009E forecasts in those businesses we feel are more exposed. We have maintained our 2009E margin forecasts, although it is likely that margins would come under pressure if top-line growth were to slow. Furthermore, we maintain our 2010E top-line and margin forecasts, given an expected recovery. Nevertheless, the impact from the change to our 2009E forecasts is that 2010E profits are affected and we reduce our 2009E and 2010E EPS forecasts both by 1.7%. However, any weakness in top-line growth can be more than compensated by the company undertaking acquisitions, given SGS's strong balance sheet and access to funding.

We present our summary financials in Table 22 below.

Table 22: SGS – P&L estimates

Year to December (CHF m)	2005	2006	2007A	2008E	2009E	2010E
Group revenue	3308.1	3821.0	4371.6	4861.5	5143.9	5537.2
Organic growth	11.5%	10.2%	12.0%	10.0%	5.8%	7.6%
EBITDA	642	775.4	908.6	1028.8	1101.1	1195.4
EBITDA Margin %	19.4%	20.3%	20.8%	21.2%	21.4%	21.6%
Depreciation	140.0	171.8	197.6	203.6	226.2	251.3
EBITA	502.0	603.6	711.0	825.1	874.9	944.2
EBITA Margin %	15.2%	15.8%	16.3%	17.0%	17.0%	17.1%
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	19.0	-21.0	0.0	0.0	0.0
Income from Associates & JVs	0	0	0	0	0.0	0
Net Interest Payable	5.0	-1.0	1.6	7.0	10.0	11.0
Reported PBT	507	621.6	691.6	832.1	884.9	955.2
Taxation (charge)/credit	-119	-155.1	-171.5	-201.4	-214.1	-231.1
Post-Tax Income	388	466.5	520.1	630.8	670.8	724.1
Minorities	-17	-24.7	-20.0	-34.1	-36.3	-39.2
UBS Earnings	371	422.8	521.0	596.7	634.5	684.9
Reported Earnings	371	441.8	500.0	596.7	634.5	684.9
Fully Diluted UBS EPS (CHF)	48.9	55.9	67.6	76.8	81.6	88.1
Reported EPS (CHF)	49.5	58.6	65.5	77.6	82.5	89.0

Source: SGS, UBS estimates

We expect 2008E results to be resilient

We have lowered our 2009E growth forecasts, resulting in EPS reductions of c2% for 2009E and 2010E

Table 23: SGS – divisional revenue estimates

Year to December (CHF m)	2005	2006	2007A	2008E	2009E	2010E
Agriculture	294.8	336.1	356.5	397.9	413.8	438.6
Organic growth	12.2%	5.7%	3.6%	7.0%	4.0%	6.0%
Minerals	393.7	467.2	559.8	638.2	670.1	717.0
Organic growth	17.5%	15.9%	17.0%	14.0%	5.0%	7.0%
Oil, Gas & Chemicals	635.5	783.0	891.3	990.2	1039.7	1112.5
Organic growth	9.5%	13.2%	12.4%	8.0%	5.0%	7.0%
Life Sciences	125.3	186.8	200.4	220.4	238.1	259.5
Organic growth	15.6%	9.2%	4.2%	10.0%	8.0%	9.0%
Consumer Testing	476.2	580.1	654.7	748.3	815.7	905.4
Organic growth	27.5%	21.7%	10.2%	13.5%	9.0%	11.0%
Systems & Services Certification	274.0	319.2	353.5	383.9	406.9	431.4
Organic growth	15.3%	14.7%	9.0%	8.6%	6.0%	6.0%
Industrial Services	444.8	510.0	624.7	689.7	731.0	789.5
Organic growth	12.6%	13.1%	15.7%	10.0%	6.0%	8.0%
Environmental Services	235.0	249.2	281.1	305.8	324.2	346.9
Organic growth	9.0%	6.5%	14.1%	8.0%	6.0%	7.0%
Automotive Services	200.2	220.1	249.2	266.6	277.3	291.2
Organic growth	-0.5%	4.0%	10.2%	7.0%	4.0%	5.0%
Trade Assurance Services	228.6	169.5	200.4	220.4	227.1	245.2
Organic growth	-10.5%	-27.0%	20.0%	10.0%	3.0%	8.0%
Group revenue	3308.1	3821.0	4371.6	4861.5	5143.9	5537.2
Organic growth	11.5%	10.2%	12.0%	10.0%	5.8%	7.6%
Organic growth ex Government	11.7%	11.0%	10.1%	9.3%	5.2%	7.0%

Source: SGS, UBS estimates

Table 24: SGS – divisional EBITA estimates

Year to December (CHF m)	2005	2006	2007A	2008E	2009E	2010E
Agriculture	33.5	41.8	47.6	54.1	56.3	59.6
Margin	11.4%	12.4%	13.4%	13.6%	13.6%	13.6%
Minerals	63.1	80.5	98.2	115.5	121.3	129.8
Margin	16.0%	17.2%	17.5%	18.1%	18.1%	18.1%
Oil, Gas & Chemicals	79.4	112.6	133.4	153.5	161.2	172.4
Margin	12.5%	14.4%	15.0%	15.5%	15.5%	15.5%
Life Sciences	19.1	23.9	24.1	30.9	33.3	36.3
Margin	15.2%	12.8%	12.0%	14.0%	14.0%	14.0%
Consumer Testing	102.1	133.9	151.9	179.6	195.8	217.3
Margin	21.4%	23.1%	23.2%	24.0%	24.0%	24.0%
Systems & Services Certification	46.5	59.0	65.0	71.4	75.7	80.2
Margin	17.0%	18.5%	18.4%	18.6%	18.6%	18.6%
Industrial Services	58.6	74.7	100.6	111.0	117.7	127.1
Margin	13.2%	14.6%	16.1%	16.1%	16.1%	16.1%
Environmental Services	26.0	24.1	27.6	32.1	34.0	36.4
Margin	11.1%	9.7%	9.8%	10.5%	10.5%	10.5%
Automotive Services	25.2	29.8	33.8	37.3	38.8	40.8
Margin	12.6%	13.5%	13.6%	14.0%	14.0%	14.0%
Trade Assurance Services	48.5	23.2	28.8	39.7	40.9	44.1
Margin	21.2%	13.7%	14.4%	18.0%	18.0%	18.0%
Group EBITA	502.0	603.6	711.0	825.1	874.9	944.2
EBITA Margin %	15.2%	15.8%	16.3%	17.0%	17.0%	17.1%
EBITA margin ex Government	14.7%	15.9%	16.4%	16.9%	17.0%	17.0%

Source: SGS, UBS estimates

Table 25: SGS 2009 sensitivity analysis to varying levels of organic growth

	FY 08	2009 sensitivities										Base case 2009 estimates					
		7%	-5%	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%	5%	6%	7%	8%	9%
Agriculture (CHF m)																	
Revenues		378	382	386	390	394	398	402	406	410	414	418	422	426	430	434	438
EBITA		38	40	42	44	46	48	50	52	54	56	58	60	62	64	66	68
EBITA margin	13.6%	10.2%	10.6%	11.0%	11.4%	11.8%	12.1%	12.5%	12.9%	13.2%	13.6%	13.9%	14.3%	14.6%	14.9%	15.3%	15.6%
EPS impact (% change)		-2%	-2%	-2%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	1%	1%
Minerals (CHF m)																	
Revenues	14%	613	619	625	632	638	645	651	657	664	670	676	683	689	696	702	708
EBITA		98	101	103	106	109	111	114	116	119	121	124	126	129	131	134	137
EBITA margin	18.1%	16.0%	16.3%	16.5%	16.8%	17.0%	17.2%	17.5%	17.7%	17.9%	18.1%	18.3%	18.5%	18.7%	18.9%	19.1%	19.3%
EPS impact (% change)		-3%	-2%	-2%	-2%	-2%	-1%	-1%	-1%	0%	0%	0%	1%	1%	1%	2%	2%
Oil, Gas & Chemicals (CHF m)																	
Revenues	8%	951	961	970	980	990	1,000	1,010	1,020	1,030	1,040	1,050	1,060	1,069	1,079	1,089	1,099
EBITA		126	129	133	137	141	145	149	153	157	161	165	169	173	177	181	185
EBITA margin	15.5%	13.2%	13.5%	13.8%	14.0%	14.3%	14.5%	14.8%	15.0%	15.3%	15.5%	15.7%	16.0%	16.2%	16.4%	16.6%	16.8%
EPS impact (% change)		-4%	-4%	-3%	-3%	-2%	-2%	-1%	-1%	0%	0%	0%	1%	1%	2%	2%	3%
Life Sciences (CHF m)																	
Revenues	10%	218	220	223	225	227	229	231	234	236	238	240	242	245	247	249	251
EBITA		27	28	29	29	30	31	31	32	33	33	34	35	35	36	37	37
EBITA margin	14.0%	12.5%	12.7%	12.9%	13.1%	13.2%	13.4%	13.5%	13.7%	13.9%	14.0%	14.1%	14.3%	14.4%	14.6%	14.7%	14.8%
EPS impact (% change)		-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Consumer Testing (CHF m)																	
Revenues	14%	748	756	763	771	778	786	793	801	808	816	823	831	838	846	853	861
EBITA		169	172	175	178	181	184	187	190	193	196	199	202	205	208	211	214
EBITA margin	24.0%	22.6%	22.7%	22.9%	23.1%	23.2%	23.4%	23.5%	23.7%	23.9%	24.0%	24.1%	24.3%	24.4%	24.6%	24.7%	24.8%
EPS impact (% change)		-3%	-3%	-3%	-2%	-2%	-1%	-1%	0%	0%	0%	0%	1%	1%	1%	2%	2%
Systems & Services Certification (CHF m)																	
Revenues	9%	372	376	380	384	388	392	395	399	403	407	411	415	418	422	426	430
EBITA		65	66	68	69	70	71	72	73	75	76	77	78	79	80	81	83
EBITA margin	18.6%	17.5%	17.7%	17.8%	17.9%	18.0%	18.2%	18.3%	18.4%	18.5%	18.6%	18.7%	18.8%	18.9%	19.0%	19.1%	19.2%
EPS impact (% change)		-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%
Industrial Services (CHF m)																	
Revenues	10%	669	676	683	690	697	703	710	717	724	731	738	745	752	759	766	772
EBITA		93	96	98	101	104	107	109	112	115	118	120	123	126	129	131	134
EBITA margin	16.1%	13.9%	14.1%	14.4%	14.7%	14.9%	15.2%	15.4%	15.6%	15.9%	16.1%	16.3%	16.5%	16.8%	17.0%	17.2%	17.4%
EPS impact (% change)		-3%	-3%	-2%	-2%	-2%	-1%	-1%	-1%	0%	0%	0%	1%	1%	1%	2%	2%
Environmental Services (CHF m)																	
Revenues	8%	297	300	303	306	309	312	315	318	321	324	327	330	333	336	339	343
EBITA		20	22	23	25	26	28	29	31	33	34	36	37	39	40	42	43
EBITA margin	10.5%	6.8%	7.3%	7.7%	8.1%	8.5%	9.0%	9.3%	9.7%	10.1%	10.5%	10.9%	11.2%	11.6%	11.9%	12.3%	12.6%
EPS impact (% change)		-2%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	1%	1%	1%	1%
Automotive Services (CHF m)																	
Revenues	7%	253	256	259	261	264	267	269	272	275	277	280	283	285	288	291	293
EBITA		32	32	33	34	35	36	36	37	38	39	40	40	41	42	43	44
EBITA margin	14.0%	12.5%	12.7%	12.8%	13.0%	13.2%	13.4%	13.5%	13.7%	13.8%	14.0%	14.2%	14.3%	14.4%	14.6%	14.7%	14.9%
EPS impact (% change)		-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%
Trade Assurance Services (CHF m)																	
Revenues	10%	207	209	212	214	216	218	220	223	225	227	229	231	234	236	238	240
EBITA		29	30	32	33	34	36	37	38	40	41	42	44	45	46	47	49
EBITA margin	18.0%	14.0%	14.5%	14.9%	15.4%	15.9%	16.3%	16.7%	17.2%	17.6%	18.0%	18.4%	18.8%	19.2%	19.6%	19.9%	20.3%
EPS impact (% change)		-1%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%
Group (CHF m)																	
Revenues	10%	4,706	4,755	4,804	4,852	4,901	4,949	4,998	5,047	5,095	5,144	5,192	5,241	5,290	5,338	5,387	5,436
EBITA		697	717	737	757	776	796	816	835	855	875	895	914	934	954	974	993
Group EBITA margin	17.0%	14.8%	15.1%	15.3%	15.6%	15.8%	16.1%	16.3%	16.6%	16.8%	17.0%	17.2%	17.4%	17.7%	17.9%	18.1%	18.3%
EPS (UBS adjusted diluted)		64.3	66.3	68.2	70.1	72.0	73.9	75.9	77.8	79.7	81.6	83.6	85.5	87.4	89.3	91.3	93.2
EPS impact (% change)		-21%	-19%	-16%	-14%	-12%	-9%	-7%	-5%	-2%	0%	2%	5%	7%	9%	12%	14%
Valuation																	
Implied PE multiple at 1,400 CHF	1,400	21.8x	21.1x	20.5x	20.0x	19.4x	18.9x	18.5x	18.0x	17.6x	17.1x	16.8x	16.4x	16.0x	15.7x	15.3x	15.0x

Source: UBS estimates

We show our changes to our top-line growth forecasts for SGS in the table below.

Table 26: Change to top-line growth forecasts (%)

	2009Old	2009New	Absolute margin change%	2010E
Agricultural Services	6%	4%	2.00%	6%
Minerals Services	7%	5%	2.00%	7%
Oil, Gas & Chemical Services	7%	5%	2.00%	7%
Life Sciences Services	9%	8%	1.00%	9%
Consumer Services	11%	9%	2.00%	11%
Systems & Services Certification	6%	6%	0.00%	6%
Industrial Services	8%	6%	2.00%	8%
Environmental Services	7%	6%	1.00%	7%
Automotive Services	5%	4%	1.00%	5%
Trade Assurance Services	8%	3%	1.00%	8%
Total growth	7.6%	5.8%	2.00%	7.6%

Source: UBS estimates

Valuation

Having lowered our numbers, we also reduce our price target to CHF1520 from CHF1600. The extent of the reduction in our price target (5%) is greater than that in the earnings (2%) as we are taking a more cautious view of Testing company valuations as a whole. Currently, Testing companies are trading at a c37% PE premium to the MSCI Industrials Index and we are concerned they could de-rate even with the slightest earnings expectation miss. At our new price target of CHF1520, the company would be valued at 18.6x 2009E EPS.

We reduce our price target to CHF1520 from CHF1600 and downgrade our rating from Buy to Neutral

Statement of risk

Bureau Veritas: Upside risk may come from favourable movements in exchange rates (US Dollar is about 20% of revenues), while new legislation or regulations could have a positive impact on growth and margins. Bureau Veritas is also actively making acquisitions, the timing and size of which may be helpful for earnings growth.

Intertek: Upside risk may come from favourable movements in exchange rates (US Dollar is about 80% of earnings), while new legislation or regulations could have a positive impact on growth and margins. Improved pricing ability in Consumer testing would also be positive for Intertek. Intertek is also actively making acquisitions, the timing and size of which may be helpful for earnings growth.

SGS: Risks for SGS include a weakening US dollar, potential loss of reputation, and a lack of or unfavourable regulation.

■ Statement of Risk

Please see individual company risks above.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bureau Veritas ^{2,4}	BVI.PA	Neutral	N/A	€37.53	22 Apr 2008
Intertek Group plc	ITRK.L	Neutral	N/A	1,019p	22 Apr 2008
SGS ^{4, 5, 13, 15, 18a, 18b}	SGSN.VX	Buy	N/A	CHF1,452.00	22 Apr 2008

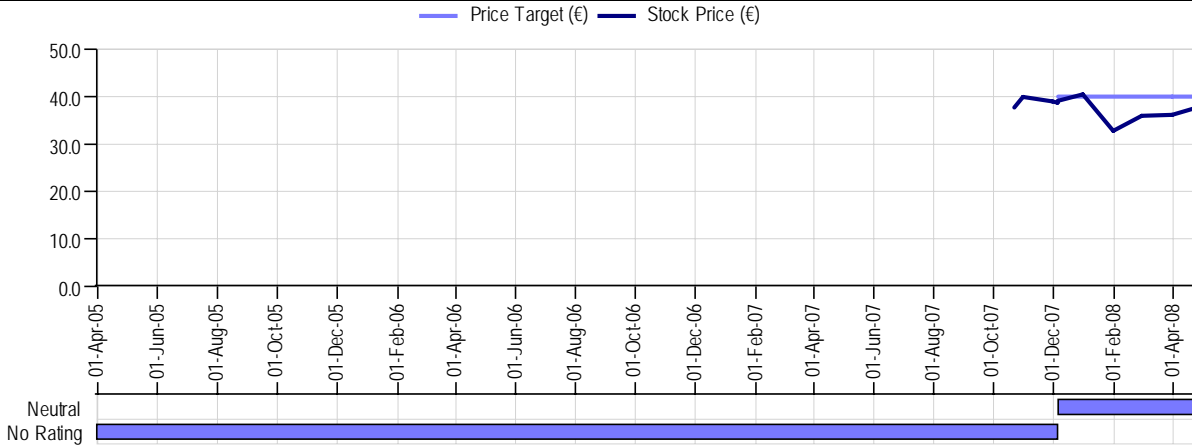
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
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15. UBS AG, its affiliates or subsidiaries has issued a warrant the value of which is based on one or more of the financial instruments of this company.
- 18a. A director or an employee of UBS AG, its affiliates or subsidiaries is a director of this company.
- 18b. UBS AG is acting as agent on SGS' announced share buy-back programme.

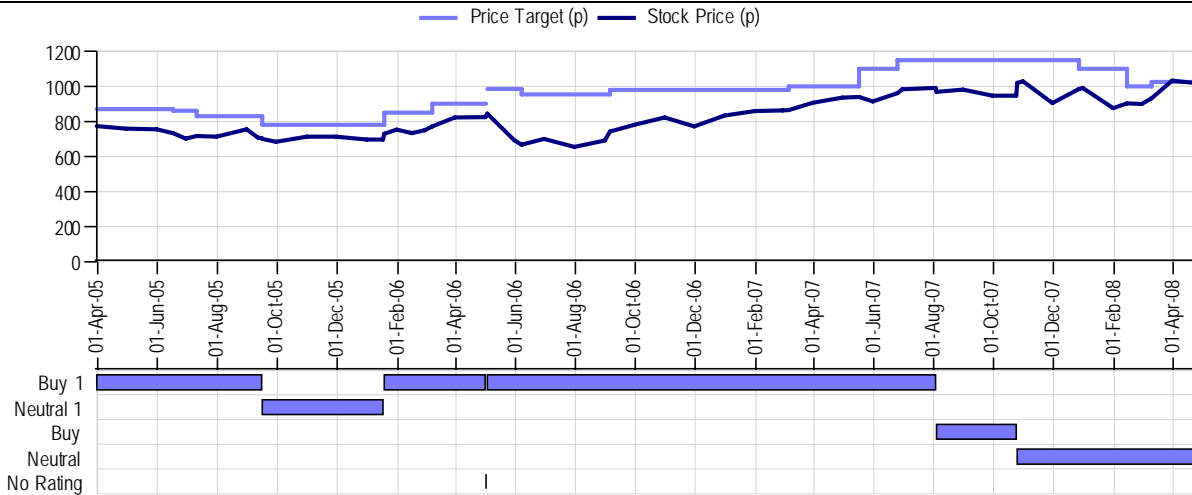
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bureau Veritas (€)



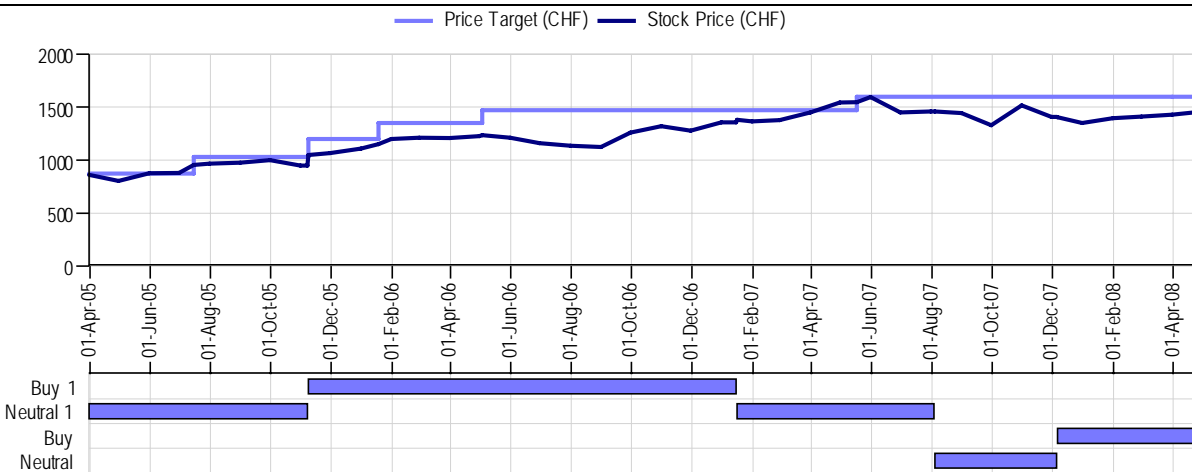
Source: UBS; as of 22 Apr 2008

Intertek Group plc (p)



Source: UBS; as of 22 Apr 2008

SGS (CHF)



Source: UBS; as of 22 Apr 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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